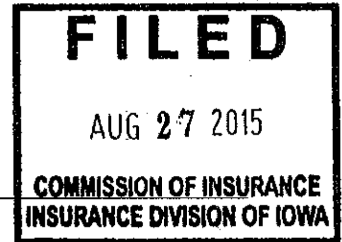


BEFORE THE IOWA INSURANCE COMMISSIONER

IN THE MATTER OF CARSON ENERGY, INC.; EARL CARTER BILLS II; ANTHONY WEBER; and JERROLD S. ROTHOUSE, Respondents	)))))))))))))	**SUMMARY ORDER TO CEASE AND DESIST** Division Case No. 88113

On August 25, 2015, Compliance Attorney Dustin J. DeGroote on behalf of the Iowa Insurance Division ("Division") submitted a statement of charges requesting a summary cease and desist order.

NOW THEREFORE, Commissioner of Insurance, Nick Gerhart, pursuant to Iowa Code § 502.604 and in consideration of the statement of charges filed in this matter, does hereby make and issue the following findings of fact, conclusions of law and summary order:

I. PARTIES AND JURISDICTION

1. The Commissioner of Insurance, Nick Gerhart ("Commissioner"), administers and enforces the Iowa Uniform Securities Act – Iowa Code Chapter 502 and Iowa Administrative Code 191 – Chapter 3. Commissioner Gerhart has authorized the Division to seek enforcement of these provisions.

2. Carson Energy, Inc. ("Carson Energy") is a Texas corporation with offices and a principal place of business at 5000 Plaza on the Lake, Suite 250, Austin, TX 78746. Carson Energy may be served by providing a copy of this filing to the Commissioner pursuant to Iowa

Code § 502.611 and by mailing a copy to the respondent's last known address or taking other reasonable steps to give notice.

3. Earl Carter Bills II ("Bills") is a natural person, a resident of Texas, and president of Carson Energy. Bills' last known address is a residence at 3601 Lost Creek Blvd., Austin, TX 78735. Bills may be served by providing a copy of this filing to the Commissioner pursuant to Iowa Code § 502.611 and by mailing a copy to the respondent's last known address or taking other reasonable steps to give notice.

4. Anthony Weber ("Weber") is a natural person, a resident of Texas, and at all times relevant hereto was a vice-president and account manager with Carson Energy. Weber's last known address is a residence at 2508 Keepsake Dr., Austin, TX 78745. Weber may be served by providing a copy of this filing to the Commissioner pursuant to Iowa Code § 502.611 and by mailing a copy to the respondent's last known address or taking other reasonable steps to give notice.

5. Jerrold S. Rothouse ("Rothouse") is a natural person, a resident of Texas, and an employee or agent of Carson Energy. Rothouse's last known address is a residence at 6000 Shepherd Mountain, CV 1204, Austin, TX 78730. Rothouse may be served by providing a copy of this filing to the Commissioner pursuant to Iowa Code § 502.611 and by mailing a copy to the respondent's last known address or taking other reasonable steps to give notice.

6. From at least as early as June 16, 2011 to July 23, 2015, Respondents engaged in acts, practices and courses of business within the state of Iowa constituting violations of the Iowa Uniform Securities Act -- Iowa Code Chapter 502.

II. FINDINGS OF FACT

7. In early 2011, Weber "cold called" a prospective investor ("Investor A") in Iowa and solicited an investment in oil and gas wells. Prior to receiving the call, Investor A had not expressed to the respondents any interest in their oil and gas projects. Weber represented to Investor A that Respondents obtained Investor A's contact information from a marketing list that purportedly contained contact information for "accredited investors" and that at the time of the initial call, he was "making cold calls to talk to them about the Carson opportunity."

8. During the telephone offer, Weber made numerous representations to Investor A concerning participation or interests in oil and gas well drilling and production, including the following:

A. The investment was in a "low risk, high potential oil and gas project";

B. The investment "is a tax write-off";

C. "I believe this project can provide a very good monthly income" and "4600 Miocene is a safety net with 211,000 barrels of oil in case the other 531,000 barrels don't pan out";

D. "You will see why this project is such a good candidate for generating significant income";

E. "There is only a slight chance that no oil or gas will be found in commercial quantities"; and

F. "We have been in business for 30-40 years and had big returns. A recent offering earned 50% in just 3 months."

9. Investor A did not have a pre-existing relationship with, nor was he aware of or familiar with Respondents prior to the time that Weber placed the initial cold call to Investor A.

10. On or about June 21, 2011, Investor A submitted an "Application Agreement" to "apply" to invest in units of participation or interest in an oil and gas well project described as Carson Energy Group "Lucky #1 3D 2011." A sample application agreement is attached as Exhibit A and incorporated herein by reference.

11. The application agreements were created and offered by Carson Energy on a take it or leave it basis, with no opportunity for negotiation of the terms by the investors.

12. On June 21, 2011, Investor A invested money in units of participation or interest in an oil and gas well project described as Carson Energy Group "Lucky #1 3D 2011." In making the decision to invest, Investor A relied solely upon information and materials provided by Respondents Weber and Carson Energy.

13. Investor A had no prior experience in oil and gas exploration, drilling or production, but did rely on Weber, and expected to rely wholly on the judgment, experience, and information provided by Respondents.

14. Investor A's sole qualification to participate in a joint venture in oil and gas exploration, drilling, or production is that Investor A had the financial ability to purchase a unit of participation or interest in a purported joint venture.

15. Following Investor A's investment in "Lucky #1 3D 2011." Weber continued to call Investor A with very positive preliminary reports and eventually began reporting royalty payments.

16. Weber solicited additional money from Investor A, who was reassured by positive early results being reported by Weber.

17. On July 15, 2011, Investor A invested money in units of participation or interest in an oil and gas well project described as Carson Energy Group "Cardinal #1 3D 2011."

18. On September 15, 2011, Investor A invested money in units of participation or interest in an oil and gas well project described as Carson Energy Group "2011 S.W. Queensland, Australia Seismic Participation Group Joint Venture."

19. On March 13, 2012, Investor A invested money in units of participation or interest in an oil and gas well project described as Carson Energy Group "White Castle #1 3D." This project was also described as Carson Energy Group "Lucky #2 3D 2012."

20. On August 10, 2012, Investor A invested money in units of participation or interest in an oil and gas well project described as Carson Energy Group "River Bend #1 / Hammock #1 3D 2012."

21. Weber, throughout this period of July 15, 2011 through August 10, 2012, telephoned Investor A, offering positive reports and then advising Investor A that more money was needed to fund "testing" and then "oil and gas collection and delivery facilities."

22. During this period of July 15, 2011 through August 10, 2012, Weber's descriptions of the wells' production varied from "huge" to "enormous" as he also solicited additional investment money from Investor A.

23. During the period of June 21, 2011 through August 10, 2012, Respondents provided reports and forecasts, which created unreasonable investor expectations of return on investment and other benefits.

24. After Investor A's final investment, Weber represented to Investor A the occurrence of "delays" in development or that the wells were now "dry" and had been "plugged."

25. During the period of June 21, 2011 through August 10, 2012 and prior to obtaining investment money from Investor A, Respondents failed to disclose important factual information, including the following:

A. Detailed information concerning the location and ownership of the oil and gas rights;

B. Any recent financial statements, including annual income statements and balance sheets for Carson Energy;

C. Operating history of Carson Energy and its principals, including a description of all wells developed, in production and the quality of returns on investment;

D. Significant risks of the investment including capitalization, lack of liquidity, and restrictions or possible delays on drilling and production;

E. All officers, directors and principals of Carson Energy; and

F. Use of funds, including detailed information concerning all compensation paid to any persons to offer or sell the units of participation or interests in the oil and gas well projects.

26. Investor A has suffered substantial financial losses in excess of $559,000 investing with Respondents in investment contracts in the form of units of participation or interest in oil and gas well projects.

27. With the purchase of each unit of participation or interest in an oil and gas well project, the investor was purportedly agreeing to be bound by a contract referred to as a "Joint Venture Agreement." A sample joint venture agreement is attached as Exhibit B and incorporated herein by reference. Each joint venture agreement has substantially the same terms, varying by the number of units offered, the cost of each unit, the cost of the "completion assessment," and other items specific to a particular project, such as the amount of "working interest" acquired, the "net revenue interest," and the location of the well.

28. The joint venture agreements were created and offered by Carson Energy on a take it or leave it basis, with no opportunity for negotiation of the terms by the investors.

29. Carson Energy determined the price of each unit. *See Section 2.4.3 of Exhibit B.* Each unit price typically covered drilling and testing. *Id.* Carson Energy failed to disclose the actual costs, expenses, charges, and fees of drilling and testing, completion, and other activities. *See Sections 3.2.2 and 4.5 of Exhibit B.*

30. In the joint venture agreements and by power of attorney, the investors are defined as "Venturers" that expressly delegate the day to day management of the operations of the purported joint venture to the "Managing Joint Venturer." In each joint venture agreement, Carson Energy is the initial managing joint venturer. A sample power of attorney is attached as Exhibit C and incorporated herein by reference. *See also Sections 2.1, 2.2 and 4.1 of Exhibit B.*

31. In each purported joint venture, Carson Energy made the sole determination about how many "units" to offer to investors. *See Sections 2.4 and 2.4.5 of Exhibit B.*

32. Carson Energy had the sole discretion to determine who to admit or reject as a purported partner. *See Section 2.4.1 of Exhibit B.*

33. Steve Owen ("Owen") is a principal, employee or agent of Carson Energy. Bills, Owen, Rothouse and Weber were all principals, agents, or employees of Carson Energy, and all actions they took were in their capacity as representatives of Carson Energy and within the authority authorized by Carson Energy.

34. Carson Energy completed extensive pre-formation activities, including developing the businesses as a Texas partnership, selecting the business model, selecting the exact well locations, choosing the drilling strategies, selecting the geologists to survey the location, and selecting all contractors to complete the various tasks of the projects.

35. All of the money necessary to prepare the projects for "completion" was spent by Carson Energy prior to the time that the investor submitted an investment. In addition to the initial

investment by each investor, an additional "Completion Assessment" was required after the initial investment. The completion assessment was an amount of additional investment money required of the investors after the initial investment. *See Section 6(O) of Exhibit A and Section 2.8.3 of Exhibit B.* The consequence of investors failing to submit the additional investment would have been to abandon their initial investments or the opportunity for any returns on their investments. *See Sections 2.8.1, 2.8.3 and 2.9.5 of Exhibit B.*

36. After receipt of the completion assessment, the purported joint venture would enter into a contract with Carson Energy, in its individual capacity, to complete the well. *See Section 6(P) of Exhibit A.* The terms of that turnkey contract and a detailed explanation of the actual expenses incurred for completion of the project were not provided to the investors.

37. Carson Energy was the sole contact for each of the investors. All communications between the investors and each purported joint venture was through Carson Energy, its employees and agents, and the remaining respondents.

38. Carson Energy was the sole source of information about the purported joint venture to the investors. Carson Energy distributed certain marketing and promotional materials about prospective investments to the investors. As such, Carson Energy controlled exactly what and how much information was given to the investors. A sample piece of promotional material is attached as Exhibit D and incorporated herein by reference.

39. After contributing the initial investment, the investors were required to submit additional investment money, or abandon their initial investments or the opportunity for any returns on their investment. *See Sections 2.8.1, 2.8.3 and 2.9.5 of Exhibit B.*

40. As managing joint venturer, Carson Energy had the exclusive authority to bind the purported joint venture. *See Sections 4.1 and 5.1 of Exhibit B.*

41. Though the joint venture agreement reserves certain powers to the investors, in practice, the investors exercised little control over the operations of the purported joint venture.

42. Though the application agreement requires the investors to actively participate in the management of the purported joint venture, in practice, the investors exercised little control over the operations of the purported joint venture.

43. The only participation by the investors in the management of the purported joint ventures was a "vote" by the investor. The vote involved Carson Energy waiting to perform some additional activity and corresponding expense required to "complete" the project, or some portion of the project. Carson Energy required the investors to vote "yes" and submit a corresponding additional investment before Carson Energy would perform the activity that was the subject of the vote. In some instances, additional votes were taken for activities other than "completion," requiring additional investments for the right to experience a return from those activities. *See Sections 6(O) and 6(R) of Exhibit A.* A sample voting ballot is attached as Exhibit E and incorporated herein by reference.

44. Voting ballots were sent to the investors via FedEx and expired by their terms in 3 days if Carson Energy did not receive a vote of "yes" and the additional required investment money. *See Exhibit E.* Voting ballots were always accompanied by a request for an additional investment. Carson Energy required that voting ballots be received at their offices within 3 days by FedEx overnight delivery.

45. One option on the purported voting ballot was to vote "yes," submit additional investment money, and enjoy the opportunity for some return on the investor's investment by way of the right to "participate" in the future project earnings. Another option was to vote "no." If the investor elected to vote "no" or failed to pay the additional investment money (sometimes

called a "completion assessment") within 3 days, the investor's vote was deemed a "negative vote for completion and a request that his (her) interest in the Joint Venture be abandoned, and he (she) shall effectively withdraw as a Venturer with no further benefits, rights or obligations with respect to the sharing of income, gains and losses." *Section 6(O) of Exhibit A. See also Sections 2.8.3 and 2.9.5 of Exhibit B.* A final option sometimes present on the voting ballot was "Please contact me regarding additional participation in the [purported joint venture] should other participation units become available."

46. Investor A elected to vote "yes" on all occasions, and to submit additional investment money to the purported joint venture. By doing so, Investor A elected to potentially earn some right to future earnings. Investor A never voted "no" or abandoned Investor A's significantly larger initial investments, or the opportunity for further returns on the investments. Additional money invested was often in the range of $1,500 to $8,500, and sometimes in the range of $12,500 to $22,000. Additional money included payments purportedly for completion assessments, and construction or leases of such items as "elimination facilities," "storage facilities," "setting completion casing," "wellbore cleanout and flow tests," "production facility assessments," and "pumping unit installations."

47. Investor A often called Weber after receiving voting documents to discuss the reason for the vote, the item to be voted upon, and the reason that additional investment was required. Owen often also participated in such calls.

48. When deciding whether to vote yes or no, Investor A relied wholly on advice and information provided by Respondents.

49. On many occasions, Investor A asked Weber and Owen why additional investments were being required and why the initial investment wasn't covering certain costs or expenses.

Respondents were unable to provide Investor A an explanation for why new costs weren't being covered by the initial investment. Weber explained on one occasion that "[they] had learned that if [they] didn't let participants vote, then it wouldn't be legitimate."

50. The results of the voting were never reported to Investor A.

51. Other investors were contacted and solicited by the respondents at least as early as 2010, and in similar fashion to the solicitations of Investor A. Investor B, Investor C, Investor D, Investors D and E (jointly), Investor F, Investor G, Investor H, Investor I, Investor J, Investor K, Investor L, Investor M, and Investor N all received similar solicitations from respondents and made investments similar to those of Investor A.

52. Exhibit F is incorporated herein by reference and contains a summary of each investor and their corresponding investments.

53. Investor A invested a total of $559,210.67 with Respondents, as detailed in Exhibit F.

54. Investor B, an Iowa resident, invested a total of $123,410.71 with Respondents, as detailed in Exhibit F.

55. Investor C, an Iowa resident, invested a total of $140,480.46 with Respondents, as detailed in Exhibit F.

56. Investor D, an Iowa resident, invested a total of $100,246.90 with Respondents, as detailed in Exhibit F.

57. Investors D and E, Iowa residents, jointly invested a total of $207,911.41 with Respondents, as detailed in Exhibit F.

58. Investor F, an Iowa resident, invested a total of $14,263.50 with Respondents, as detailed in Exhibit F.

59. Investor G, an Iowa resident, invested a total of $7,131.75 with Respondents, as detailed in Exhibit F.

60. Investor H, an Iowa resident, invested a total of $90,500.50 with Respondents, as detailed in Exhibit F.

61. Investor I, an Iowa resident, invested a total of $196.209.24 with Respondents, partially through a self-directed IRA for Investor I's benefit, as detailed in Exhibit F.

62. Investor J, an Iowa resident, invested a total of $247,708.14 with Respondents, as detailed in Exhibit F.

63. Investor K, an Iowa resident, invested a total of $159,860.11 with Respondents, as detailed in Exhibit F.

64. Investor L, an Iowa resident, invested a total of $105,305.54 with Respondents, as detailed in Exhibit F.

65. Investor M, an Iowa resident, invested a total of $54,814.60 with Respondents, as detailed in Exhibit F.

66. Investor N, an Iowa limited partnership, invested a total of $100,246.90 with Respondents, as detailed in Exhibit F.

67. The Securities Bureau of the Iowa Insurance Division has no record of registration as securities for the respondents' units of participation or interest in oil and gas well ventures described in paragraphs 7 through 66.

68. On July 14, 2015, Compliance Attorney Dustin DeGroote of the Division issued an administrative subpoena entitled Order to Provide a Statement and Produce Records. The administrative subpoena was served upon Respondents Carson Energy, Bills, and Weber by providing a copy to the Commissioner pursuant to Iowa Code § 502.611 and by mailing a copy

by both first class and certified mail to the respondents' last known addresses. Among other orders, the administrative subpoena ordered the respondents to provide a statement of "All claims of exemption from registration or exception from definition of a security upon which the issuer, or its agents, have relied to offer or sell unregistered participation or interests in oil and gas joint ventures in this state, and documentary evidence to support each claim." Respondent Rothouse was not named in the administrative subpoena.

69. On August 3, 2015, Respondents Carson Energy and Bills provided a response to the administrative subpoena, specifically responding to the order contained in paragraph 68 of this summary order to cease and desist, asserting that the "joint venture interests are not 'investment contracts' or 'securities,' but rather general partnership type interests which are excluded or excepted from the definition of a security." Respondents Carson Energy and Bills further asserted that they did not make any Regulation D private placement offering. Respondent Weber failed to provide a response to the administrative subpoena.

70. The respondents have not provided to the Securities Bureau of the Iowa Insurance Division any claim that the respondents' units of participation or interest in oil and gas well ventures described in paragraphs 7 through 66 are federal covered securities.

71. The respondents have not provided to the Securities Bureau of the Iowa Insurance Division any claim that the respondents' units of participation or interest in oil and gas well ventures described in paragraphs 7 through 66 are exempt from registration with the Securities Bureau.

III. CONCLUSIONS OF LAW

Count 1
Unregistered Securities

72. Paragraphs 1-71 above are incorporated by reference as though fully set forth herein.

73. Iowa Code § 502.102.28 includes "investment contract" within the definition of a security. "Investment contract" within the definition of a security is "any investment in a common enterprise with the expectation of profit to be derived through the essential managerial efforts of someone other than the investor." Iowa Admin. Code r. 191-50.1.

74. In *Corporate East Associates v. Meester*, the Iowa Supreme Court held that a purported partnership agreement was an investment contract because the partnership agreement left so little power in the hands of the purported partner that the agreement in fact distributed power in the manner of a limited partnership. 442 N.W.2d 105, 108 (Iowa 1989).

75. The use of a written joint venture or partnership agreement does not automatically remove an investment from the scope of the Iowa Uniform Securities Act. *See Corporate East Associates v. Meester*, 442 N.W.2d 105 (Iowa 1989). Instead, economic reality prevails over form. *Id* at 107 *citing Williamson v. Tucker*, 645 F.2d 404 (5th Cir. 1981).

76. A sister state has held that the securities act does in fact apply in similar factual circumstances:

> "[I]n searching for the meaning and scope for the word 'security' in the Act, form should be disregarded for substance and the emphasis should be on economic reality." *Tcherepnin v. Knight,* 389 U.S. 332, 336, 88 S.Ct. 548, 553, 19 L.Ed.2d 564 (1967). In *United Housing Foundation, Inc. v. Forman,* 421 U.S. 837, 851-52, 95 S.Ct. 2051, 2060, 44 L.Ed.2d 621 (1975) the Supreme Court stated, "we again must examine the substance--the economic realities of the transaction--rather than the names that may have been employed by the parties." Therefore, the *Forman* court concluded that the purchase of a residential apartment was not a security merely because denominated as the purchase of stock in a cooperative. Nor could it be considered an investment contract, because there was no reasonable expectation of profits to be derived from the entrepreneurial or managerial efforts of others. *Id.,* 421 U.S. at 851-52, 95 S.Ct. at 2060. Thus, in determining the applicability of the Securities Act, we look beyond labels and language and form to the economic realities involved in the transaction. "[E]ven interests in something called a *general* partnership may be securities when the venture, though a general partnership *de jure,* functions *de facto* like a limited partnership." L. Loss *Fundamentals of Securities Regulation* at 191 (1988).
> The courts in Missouri have long recognized the need to look to substance rather

> than form and to examine all the circumstances surrounding the transaction in order to effectuate the purposes of securities laws.

State v. Kramer, 804 S.W.2d 845, 846-847 (Mo. Ct. App. 1991). In the same manner under Iowa law, we look to the economic realities of the transactions. The units of participation or interest in oil and gas well ventures offered and sold to Investor A by Respondents, as described in paragraphs 1 through 66, function *de facto* like limited partnerships and constitute securities under Iowa law. The purported joint ventures lack the hallmarks of traditional partnerships for the following reasons and in the following manner:

A. The agreements were presented to investors on a take-it-or-leave-it basis, without the opportunity for negotiation of the terms as would be expected in a general partnership;

B. The purported joint ventures involved the solicitation of so-called partners through cold calling with names acquired from marketing lists;

C. The purported joint ventures involved investors that had no pre-existing relationship with the purported joint venture, the other investors, or the managing joint venturer;

D. The purported joint ventures involved the solicitation of investors whose sole qualification was the financial ability to fund the investment, as opposed to particularized experience in oil and gas business;

E. In each purported joint venture, all of the money for drilling and testing was spent prior to the formation of the purported joint venture;

F. In practice, in each of the purported joint ventures, votes were only taken by the purported joint venture at the behest of the managing joint venturer;

G. The results of the votes were not reported to the investors; and

H. The investors did not know the identities or contact information of their purported business partners, other than the respondents.

77. In *SEC v. Merchant Capital, LLC*, the court made clear that the investment contract analysis is not limited to the terms of the agreement. 483 F.3d 747, 760 (11th Cir. 2007). The court held that the investment was an investment contract and therefore a security because the investors lacked specific experience in the particular complex business. *Id.* at 762-763. In *Corporate East Associates v. Meester*, the Iowa Supreme Court considered the particular experience of other past real estate investments as opposed to considering the general business experience of the investors. 442 N.W.2d 105, 108 (Iowa 1989). Similarly, the investors in Carson Energy's purported joint ventures lacked particular experience in the complex business of oil and gas exploration. The court in *SEC v. Merchant Capital, LLC* held the partnership agreement to be an investment contract despite the fact that of certain powers were left in the hands of the purported partners. 483 F.3d. at 752. The court held the partnership agreement to be an investment contract despite the agreement allowing the removal of the managing general partner. *Id.* The court found that the partnership materials were created by the managing general partner, who was the sole contact for the partners, and that the partnership materials told the partners that they were expected to have an active role in managing the business. *Id.* However, the court found that the managing general partner had "sole authority to bind the partnerships and made the key business decisions." Here, the joint venture agreement also reserved certain powers to the investors and allowed the investors to remove Carson Energy as the managing joint venturer. Similarly, Carson Energy created the joint venture materials, was the sole contact for the investors, and had the sole authority to bind the purported joint venture, leaving little control over the operations of the purported joint venture to the investors. *Id.* Just as in *SEC v.*

Merchant Capital, LLC, the economic reality is that the purported joint ventures operated as would limited partnerships, making them investment contracts, and therefore securities.

78. A sister state found that the extensive pre-formation activities supported the application of the economic realities test to determine that the joint venture was an investment contract. *See Joseph v. Mieka Corporation,* 282 P.3d 509 (Colo. App. 2012). Just as in that case, Carson Energy's pre-formation activities included developing the business as a Texas partnership, selecting the business model, selecting the exact well locations, choosing the drilling strategy, and selecting the geologist to survey the location. Similarly, Carson Energy determined how to fractionalize the projects and determined the number of investment "units" to offer to investors. Carson Energy determined the total amount to be raised to capitalize the investment, and the per-unit cost. Carson Energy retained exclusive control over who to admit or reject as an investor. The investors relied upon the efforts of Carson Energy when investing, and all of the critical activities that determined the success of the investment occurred prior to any investment. As in *Mieka,* the pre-investment activities were so significant that they rendered the investors uniquely dependent upon the efforts of Carson Energy. *Id.* at 516. Because the investors were uniquely dependent upon the efforts of Carson Energy, the purported joint venture interests lacked the hallmarks of a traditional bona fide general partnership, and were investment contracts.

79. In determining whether the investors relied on the efforts of others, Iowa looks "not only to the partnership agreement itself, but also to other documents structuring the investment, to promotional materials, to oral representations made by the promoters at the time of investment, and to the practical possibility of the investors exercising the powers they possessed pursuant to the partnership agreements." *Consolidated Mgmt. Group, LLC. v. Dep't of Corporations* 75 Cap. Rptr. 3d 795, (Cal. App. 2008) (*quoting Koch v. Hankins,* 928 F.2d 1471, 1478 (9th Cir, 1991)).

Looking to Carson Energy's application agreement, promotional materials, oral representations, and the fact that Carson Energy was the sole point of contact to the investors in providing all such information to the investors, it was not practical for the investors to exercise the powers they possessed pursuant to the joint venture agreements. Therefore, the economic realities were that the purported joint venture agreements were in fact investment contracts.

80. The economic reality of the voting procedures was to leave so little power in the hands of the investors that the arrangements in fact distribute power as would limited partnerships, making them investment contracts. *See Williamson v. Tucker*, 645 F.2d 404 (5th Cir. 1981). Though the joint venture agreements appeared to reserve to the purported joint venturers some power to participate in the management of the purported joint venture by voting on certain activities, the economic reality was that the voting was a sham. After purchasing the units of participation to cover the costs of the pre-formation activities, the investors were required to vote to complete the project. Nothing about the condition of the well or its projected returns changed between the time of the initial investment and the vote to complete the well. Respondents arbitrarily reserved from the pre-formation activities some task to force the investors to vote on whether to complete the activity. Voting "yes" also required an additional investment. The additional investment was often a small percentage of the initial investment. Investors had the choice of voting "yes" and submitting additional money to protect their substantially larger initial investment, or voting "no" and abandoning their investment. By voting "yes" and making the additional investment, the investors were preserving the opportunity for future returns on their investments. The consequence of voting "no" would have been to abandon not only the large initial investment, but also abandon any opportunity to recover the initial investment money, and abandon any opportunity for returns on the initial investment. By structuring the

vote in such a way, Respondents coerced the investors into voting, while giving the documented appearance of meaningful participation in the business, and coerced additional investment moneys from the investors. The economic reality of structuring the voting in such a manner is in effect no different than failing to offer the opportunity for the investors to participate in the management of the business, meaning that the purported joint ventures distributed power as would limited partnerships. Further, by leaving little choice to the investors, Respondents also left the investors uniquely dependent upon the efforts of Respondents, as would be expected in limited partnerships.

81. Respondent Weber stated that the voting was for the purposes of making the purported joint venture "legitimate." This attempt to make the purported joint venture "legitimate" was an apparent attempt to avoid investment contract status. The coercive method of voting is not what would be expected of a general partnership and is not meaningfully different than a limited partnership or investment contract.

82. The requirement that voting and additional investments be received within 3 days of the issuing of the voting ballot did not allow the investors the time or opportunity to complete any independent research, which would be essential to meaningful participation in the business. Instead, investors were forced to rely upon the information, experience, and judgement provided by Respondents. This left the investors uniquely dependent upon Respondents and denied the investors the opportunity to meaningfully participate in the businesses, giving the purported joint ventures the status of investment contracts.

83. Iowa Code § 502.301 provides that it is unlawful for any person to offer or sell any security in this state unless (1) it is a federal covered security, (2) the security, transaction or

offer is exempted under §§ 502.201 through 502.203; or (3) it is registered with the Commissioner.

84. Iowa Code § 502.503.1 provides that "[i]n a civil or administrative proceeding under this chapter, a person claiming an exemption, exception, preemption, or exclusion has the burden to prove the applicability of the claim."

85. The respondents' units of participation or interest in oil and gas well projects described in paragraphs 1 through 66 are not registered with the Securities Bureau as required by Iowa Code §§ 502.303, 502.304 or 502.304A.

86. Respondents have offered and sold, and materially aided others in the offer and sale of unregistered investment contracts in the form of units of participation or interest in oil and gas well projects.

87. Respondents have not made any claim of exemptions from registration in Iowa Code §§ 502.201 or 502.202.

88. Respondents have not made any claim that the investment contracts are federal covered securities under the preemption provisions in Iowa Code § 502.302.

89. Respondents have violated Iowa Code § 502.301, by offering and selling unregistered, non-exempt and non-federally covered securities in Iowa and should be ordered to cease and desist.

90. Iowa Code § 502.604 provides, in part, that:

> 1. If the administrator determines that a person has engaged, is engaging, or is about to engage in an act, practice, or course of business constituting a violation of this chapter or a rule adopted or order issued under this chapter or that a person has materially aided, is materially aiding, or is about to materially aid an act, practice, or course of business constituting a violation of this chapter or a rule adopted or order issued under this chapter, the administrator may do any of the following:

> *a.* Issue an order directing the person to cease and desist from engaging in the act, practice, or course of business or to take other action necessary or appropriate to comply with this chapter.
>
> . . . .
>
> 2. An order under subsection 1 is effective on the date of issuance. Upon issuance of the order, the administrator shall promptly serve each person subject to the order with a copy of the order and a notice that the order has been entered. The order must include a statement of any restitution order, civil penalty, or costs of investigation the administrator will seek, a statement of the reasons for the order, and notice that, within thirty days after receipt of a request in a record from the person, the matter will be scheduled for a hearing. If a person subject to the order does not request a hearing and none is ordered by the administrator within thirty days after the date of service of the order, the order, including an order for restitution, the imposition of a civil penalty, or a requirement for payment of costs of investigation sought in the order, becomes final as to that person by operation of law. If a hearing is requested or ordered, the administrator, after notice of and opportunity for hearing to each person subject to the order, may modify or vacate the order or extend it until final determination.

91. This action is necessary and appropriate, in the public interest, for the protection of investors, and consistent with the purposes fairly intended by the provisions of the Iowa Uniform Securities Act, Iowa Code Chapter 502.

92. The violations of Iowa Code § 502.301 are grounds for orders to cease and desist, require restitution, impose civil penalties and require payment of costs of investigation as authorized under Iowa Code § 502.604.

<u>Count 2</u>
Securities Fraud

93. Paragraphs 1-92 above are incorporated by reference as though fully set forth herein.

94. Iowa Code § 502.501 provides that it is unlawful, in connection with the offer, sale or purchase of any security (1) to employ any device, scheme, or artifice to defraud, (2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not

misleading or (3) to engage in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person.

95. Respondents have violated Iowa Code § 502.501, by making untrue statements, omitting to disclose material facts, employing devices and schemes to defraud and by employing various acts, practices and courses of business which operated as a fraud or deceit upon investors in Iowa and should be ordered to cease and desist.

96. This action is necessary and appropriate, in the public interest, for the protection of investors, and consistent with the purposes fairly intended by the provisions of the Iowa Uniform Securities Act, Iowa Code Chapter 502.

97. The violations of Iowa Code § 502.501 are grounds for orders to cease and desist, require restitution, impose civil penalties and require payment of costs of investigation as authorized under Iowa Code § 502.604.

IV. ORDERS

IT IS THEREFORE ORDERED that Respondents shall cease and desist from any violation of Iowa Code §502.301, and specifically from offering or selling, or materially aiding others in the offer or sale of any investment contracts or any other securities in the state of Iowa, unless the securities are registered or Respondents have provided at least 30 days prior to any offer or sale, written notice to the Administrator of an applicable exemption or preemption as a federal covered security.

IT IS FURTHER ORDERED that Respondents shall cease and desist from any violation of Iowa Code §502.501, and specifically from making untrue statements of material facts in connection with the offer or sale of any securities, including the following:

A. The investment was in a "low risk, high potential oil and gas project";

B. The investment "is a tax write-off";

C. "I believe this project can provide a very good monthly income" and "4600 Miocene is a safety net with 211,000 barrels of oil in case the other 531,000 barrels don't pan out";

D. "You will see why this project is such a good candidate for generating significant income";

E. "There is only a slight chance that no oil or gas will be found in commercial quantities"; and

F. "We have been in business for 30-40 years and had big returns. A recent offering earned 50% in just 3 months."

IT IS FURTHER ORDERED that Respondents shall cease and desist from any violation of Iowa Code §502.501, and specifically from omitting material facts necessary to make the statements made, not misleading, including the following:

A. Detailed information concerning the location and ownership of the oil and gas rights;

B. Any recent financial statements, including annual income statements and balance sheets for Carson Energy;

C. Operating history of Carson Energy and its principals, including a description of all wells developed, in production and the quality of returns on investment;

D. Significant risks of the investment including capitalization, lack of liquidity, and restrictions or possible delays on drilling and production;

E. All officers, directors and principals of Carson Energy;

F. Use of funds, including detailed information concerning all compensation paid to any persons to offer or sell the units of participation or interests in the oil and gas well projects; and

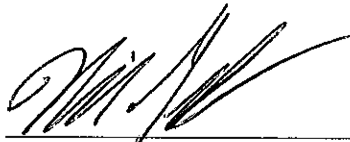
G. The actual costs, expenses, charges, and fees of drilling and testing, completion, and other activities.

IT IS FURTHER ORDERED that Respondents shall pay within thirty days of this order to the state of Iowa the amount of $2,107,300.43 as restitution to be delivered to investors filing claims with the Commissioner;

IT IS FURTHER ORDERED that Respondent shall pay within thirty days of this order to the state of Iowa the amount of $14,242.50 as costs of investigation and prosecution.

This Order shall be served upon the Respondents.

SO ORDERED on this 27th day of August 2015.



NICK GERHART
Commissioner of Insurance

NOTICE

Failure to comply with the provisions of this Order shall be grounds for further administrative action under Iowa Code chapter 502, or for injunctive relief in district court.

If YOU fail to request a hearing within 30 days of service of this Cease and Desist Order, the Order shall be a final Order of the Commissioner of Insurance and shall be enforceable by the Commissioner of Insurance in an administrative or court proceeding.

The failure to request a hearing can constitute a failure to exhaust YOUR administrative remedies and limit the issues subject to judicial review. YOU may seek judicial review of this Order, pursuant to Iowa Code chapter 17A, after the Order becomes final. The Order becomes final 30 days after it is issued if YOU do not timely request a contested case hearing, or 30 days following any ruling from a contested case hearing.

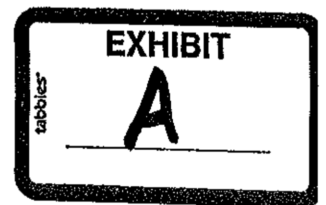
If YOU willfully violate this Order YOU shall be deemed in contempt of the order pursuant to Iowa Code section 502.604. The administrator may petition the district court to hold a hearing to enforce the order as certified by the administrator. The district court may assess a civil penalty against YOU in an amount not less than three thousand dollars but not greater than ten thousand dollars per violation, and may issue further orders as it deems appropriate.

If YOU willfully violate any provision of Iowa Code chapter 502, or any rule or order under Iowa Code chapter 502, YOU are guilty of a class "D" felony pursuant to Iowa Code section 502.605(1)(a). A person who willfully violates sections 502.401, 502.402, 502.403, or 502.408(1) or (2), resulting in a loss of more than ten thousand dollars is guilty of a class "C" felony pursuant to Iowa Code section 502.605(1)(b).

A final Cease and Desist Order may adversely affect existing business or professional licenses and result in license revocation or disciplinary action. For example, a final Cease and Desist Order issued to a licensed insurance producer may subject the insurance producer to insurance license revocation or other disciplinary action. Further notice is given that the Iowa Insurance Division may review this Cease and Desist Order for a potential license revocation or disciplinary action.

NOTICE OF RIGHT TO REQUEST HEARING

NOTICE IS HEREBY GIVEN that Respondents may request a hearing in this matter. This request must be in writing and must be filed within 30 calendar days of the service of this Order, with Commissioner Nick Gerhart, Iowa Insurance Division, 601 Locust, Fourth Floor, Des Moines, Iowa 50309. A notice of the hearing shall be prepared and shall be given at least 15 days before the date of the hearing unless the parties agree to an earlier date. The hearing shall be held within 90 days after the date of the notice of the hearing unless extended by the presiding officer for good cause with at least 15 days notice to the parties. The resulting hearing will be held in accordance with Iowa Code Chapter 17A.



APPLICATION AGREEMENT

TO: Carson Energy, Inc.
Fifth Floor
1114 Lost Creek Blvd.
Austin, Texas 78746

RE: Carson Energy Group,
Cardinal #1 3D Joint Venture

DATE: July 5, 2011

Gentlemen:

I, as applicant (the "Applicant") desire to apply for units of Joint Venture Interest (the "Units") in Carson Energy Group "Cardinal #1 3D" Project, a Joint Venture to be formed pursuant to the laws of the State of Texas (the "Joint Venture"). Applicant understands the Joint Venture will be formed for the purpose of acquiring up to a 6.00% Working Interest (equal to a total of 4.41% Net Revenue Interest which may increase or decrease slightly dependent upon lease averages) in an oil, gas and mineral lease (the Cardinal #1 3D Lease), to drill, test and, if appropriate, complete one (1) well (the Cardinal #1 3D Well) in Galveston County, Texas. Applicant further understands Carson Energy, Inc., a Texas corporation ("Carson"), as proposed Managing Venturer (the "Managing Venturer"), will be accepting preformation capitalization for an aggregate up to 18 units in the amount of $68,784.64 for the 3D Seismic and Lease costs for the Cardinal #1 3D Leasehold including the mandatory Drilling and Testing Assessment for the Cardinal #1 3D Well, subject to a mandatory Completion Assessment of $18,982.48 per Unit for the Cardinal #1 3D Well from qualified applicants who are acceptable to the Managing Venturer. Applicant has provided the Managing Venturer or its representatives with information setting forth Applicant's qualifications as a prospective participant in the Joint Venture. Applicant hereby tenders to the Managing Joint Venturer his (her) preformation reservation for Units in the Joint Venture in accordance with the terms and conditions set forth herein.

1. <u>Venturer Participation in Management.</u> Participants in this Joint Venture are provided extensive and significant management powers. Participants are and will be expected to exercise such powers and are prohibited from relying on the Managing Venturer for the success or profitability of the Joint Venture.

2. <u>Application.</u> Applicant applies for the number of units in the Joint Venture set forth on the signature page hereof in the amount of $68,784.64 per Unit for the Drilling and Testing Assessment, and subject to a call by the Joint Venture for an amount not to exceed $18,982.48 per Unit for the mandatory Completion Assessment in the event the

Joint Venture determines the Cardinal #1 3D Well on the lease is to be completed. Applicant understands the cash payment tendered herewith will be deposited in a special account pursuant to Paragraph 4 hereof. Applicant further understands the Managing Venturer may, for any reason in its sole and absolute discretion, accept or reject this application in whole or in part.

3. <u>Capitalization Period.</u> Applicant understands the period during which the Managing Venturer may accept applications for participation in the Joint Venture (the "Capitalization Period") will terminate when, in its sole and absolute discretion, the Managing Joint Venturer determines it is in the best interest of the Joint Venture to do so even though all 18 units have not been subscribed. In such case, those persons whose subscriptions have been accepted, who have become Venturers, will have an interest in the Joint Venture equal to the proportion (expressed in the terms of percentage) which such Venturer's Unit(s) bear(s) to the total Units of all Venturers in the Joint Venture at the termination of the Capitalization Period, subject to adjustments for failure to participate in Completion Assessments. The fraction thus attained will represent the fractional interest of each such Venturer in the costs and revenues, if any, of the Joint Venture attributable to the Venturers. For each Unit subscribed and accepted, the Joint Venture will be vested with a 0.3333% Working Interest (a 0.2450% Net Revenue Interest) in the Cardinal #1 3D Lease. Net Revenue Interest may vary dependent upon actual production unit approval from the regulatory agencies. (Net Revenue Interest in this agreement is estimated based upon the net revenue average of the prospect acreage in total.) The Venturer's interest per Unit in the Joint Venture will be entitled to the cost and revenues, if any, equal to the interest per Unit so earned by the Joint Venture, subject to the Managing Venturer's 1% interest in the Joint Venture and the reduction of 10% after payout. The Capitalization Period will terminate in any event on the earlier occurrence of the time the Managing Venturer has received and accepted initial capitalization for an aggregate of 18 units or September 25, 2011. The Joint Venture may be formed and engaged in operations with less than 18 units subscribed, in which case it will own less than 6.00% of the Cardinal #1 3D Lease as long as both the Working Interest and Net Revenue Interest ownership per unit remains unchanged for all participants. Each Joint Venturer will maintain his (her) full proportionate share of the well.

4. <u>Special Account</u>. The funds tendered by the Applicant shall be deposited in a special account and will not be subject to the debts or general obligations of the Joint Venture until the tendering Applicant's subscription has been accepted by the Managing Venturer and the Applicant has been admitted as a Venturer in the Joint Venture. Such funds will be returned to Applicant without interest, within 30 days, if the Application Agreement is rejected by the Managing Venturer. If Applicant's Application Agreement is accepted and the Applicant is admitted to the Joint Venture, the funds tendered by him will not be retained in the special account but will be transferred from the aforementioned special account to the Joint Venture account and the Venturer will be vested with his (her) interest in the Joint Venture.

5. <u>Formation of Joint Venture and Admission of Applicants as Venturers.</u> Upon acceptance by the Managing Venturer of the first Applicant acceptable to the

Managing Joint Venturer and the payment for such Applicant's Units in the Joint Venture has been received and accepted by the Managing Venturer, the Joint Venture will be formed pursuant to the laws of the State of Texas and will be governed by the Joint Venture agreement and the Texas Revised Partnership Act. Each Applicant whose Application Agreement and payment is subsequently received and accepted by the Managing Venturer shall be admitted as a Venturer in the Joint Venture. For each Unit subscribed and paid for, upon admission of the applicant as a Venturer, the subscription amount for each unit will be transferred to the Joint Venture from the special account and shall be considered Joint Venture assets. There is no minimum number of Units required to be subscribed for the Joint Venture to be formed and commence business and the total number of Units actually subscribed may be less than 18. In such case, the total Working Interest acquired by the Joint Venture will be less than a 6.00% Working Interest in the Cardinal #1 3D Lease. Upon admission of the Applicant as a Venturer, the Joint Venturer shall be vested with a 0.3333% Working Interest in the Cardinal #1 3D Lease (a 0.2450% Net Revenue Interest) and the Venturer's in the Joint Venture shall be subject to the costs attributable to and the revenues attributable from the leases, equal to the interest per Unit so earned by the Joint Venture, subject to the Managing Venturer's 1% interest in the Joint Venture, for which it will have paid 1% of the total Joint Venture capitalization, and after Payout reduction of an additional 10% payable to the Managing Venturer as compensation. The Venturers will have the status of general partner under the provisions of the Texas Revised Partnership Act, and as such each Venturer is a co-owner of the specific Venture property, holding as a tenant in partnership.

6. Summary of Certain Information. Certain information concerning the Joint Venture and its plan of business and operations is summarized below. Applicant understands the information set forth below is merely a summary and, therefore, may not include all of the information that Applicant might deem material to his (her) decision to participate in the Joint Venture. Applicant is encouraged to review additional information available on the Carson Energy, Inc. website at carsonenergy.com as well as request such additional information as he (she) deems important in determining whether to become a participant (Venturer) in the Joint Venture. Applicant is particularly referred to the section captioned "Risk Factors" below. Applicant further understands that certain of the information summarized below may be revised, updated, or otherwise changed. Applicant agrees that Applicant will rely solely on his (her) own inquiry in formulating his (her) ultimate decision as to whether or not to participate in the Joint Venture.

A. The Joint Venture. Upon the satisfaction of all precedent conditions the Joint Venture will be formed under the name of "Carson Energy Group Cardinal #1 3D Joint Venture", pursuant to the laws of the State of Texas and will be governed by the Joint Venture Agreement and the Texas Revised Partnership Act. Upon formation of the Joint Venture, all Applicants who have been accepted by the Managing Venturer, will become Joint Venturers ("Venturers") in the Joint Venture.

B. Rights and Duties of Venturers. As a condition to being admitted to the Joint Venture, Venturers must be prepared to actively participate in the management of the Joint Venture and must possess extensive experience and knowledge in business

affairs such that they are capable of intelligently exercising their management powers as a Joint Venturer. These duties include, but are not limited to, the ability to review, analyze and exercise voting powers, the ability to accept well revenue and payment of well expenses and request further information as may be necessary in order to exercise these powers. Additionally, as a condition to participation in the Joint Venture, Venturers must rely on their own business judgment and not on any unique entrepreneurial or managerial ability of Carson for the success of the Joint Venture due to their ability to (i) exercise their meaningful Joint Venture powers; and (ii) replace the Managing Venturer (as outlined in Section D below).

C. The Managing Venturer. Upon formation of the Joint Venture, Carson will become the initial Managing Venturer. The Managing Venturer will contribute an aggregate of 1% of initial capital as its capital contributions as Managing Venturer for which it will be entitled to 1% of all Joint Venture profits, losses, gains, deductions and benefits. To the extent the Managing Venturer contributes additional capital, its interest will be treated as any other Venturer. Carson's business address is 1114 Lost Creek Blvd., Fifth Floor, Austin, Texas 78746, and its telephone number is (512) 328-0059.

D Management. The management of the operations and the business of the Joint Venture shall be the responsibility of all the Venturers. The Venturers, by a vote of 51% in interest may, from time to time, designate one or more of the Venturers to act as Managing Venturer of the Joint Venture. Any Joint Venture partner may request a vote of the Joint Venture partners to replace the Managing Joint Venture Partner by providing a notice to the current Managing Joint Venture Partner. Current Managing Joint Venture Partner must issue a note to all partners within 10 business days. Once a majority of 51% is reached, a results notice shall be issued to all partners within 10 business days. If the election to replace the current Managing Joint Venture partner is approved, any Venturer may nominate one or more of the Venturers, select an outside Operator as listed on the approved oil and gas Operator list from the State of Texas *(Available at the Texas Railroad Commission link available on the general information section of the Carson Energy, Inc. website at carsonenergy.com),* or offer any other outside CPA, legal or management firm to be voted upon, to assume the role as the Managing Joint Venture Partner upon receiving a majority authorization. Each Venturer must be prepared to assume these responsibilities if elected as a requirement of acceptance into the Joint Venture. For convenience, the Joint Venture Agreement provides for the initial appointment of Carson as Managing Venturer.

D1. Management of Carson Energy, Inc. E. Carter Bills, II, age 59, has been involved in the oil and gas business since 1974. He is the sole director and president of Carson Energy, Inc., Federal Energy Corporation ("FEC"), Federal Energy Development Company ("FEDC"), CBN Operating Company ("CBN"), and of FEC Securities, Inc. ("FEC Securities"). As of this date, only Carson Energy, Inc. and CBN have had any business activity within the last seven (7) years. All of the outstanding stock in each of the foregoing companies are/or have been held of record by ECB II, Inc., a Texas corporation, of which Mr. Bills owns or controls 100% of the outstanding stock. From 1975 through 1991, Mr. Bills worked for FEC, and since 1991 has worked for Carson Energy, Inc. Prior to entering the oil and gas industry, Mr. Bills was engaged as the

operator of a retail business establishment. Mr. Bills studied at North Texas State University for two years prior to withdrawing from school to pursue a business career. See Affiliates.

Rebecca A. Bills, 56 years of age, is Secretary / Treasurer of Carson Energy, Inc. Ms. Bills has been employed by Carson Energy, Inc. since its inception in 1983. Rebecca A. Bills is the wife of E. Carter Bills, II.

D2. Affiliates FEC is no longer an active company. When it was active, it provided services to its clients in connection with the Simultaneous Oil and Gas Lease Drawings sponsored by the United States Bureau of Land Management. In addition, FEC sponsored limited partnerships formed for oil and gas exploration and development. The interests in those partnerships were offered and sold to public investors.

FEDC, although previously involved in drilling activities, has been inactive since 1991.

FEC Securities, a former securities broker-dealer, previously was involved in the offer and sale of interests in limited partnerships, sponsored by FEDC. The company has been inactive since 1991.

CBN has been involved previously in operating wells for various working interest owners.

E. Joint Venture Objectives. The Joint Venture intends to purchase up to 6.00% of the Working Interest (equal to 4.41% Net Revenue Interest which may increase or decrease slightly dependent upon lease averages) in the Cardinal #1 3D Leases. The total amount of Working Interest (and therefore Net Revenue Interest) to be acquired in the Leases by the Joint Venture will correspond to the number of Units subscribed prior to the termination of the Capitalization Period. Each Unit subscribed will vest the Joint Venture with a 0.3333% Working Interest (0.2450% Net Revenue Interest) in the Cardinal #1 3D Lease. In other words, if at the termination of the Capitalization Period a total of ten (10) Units have been subscribed and accepted by the Managing Venturer, the Joint Venture will retain only a 3.333% Working Interest (2.45% Net Revenue Interest) in the Cardinal #1 3D Lease and Exploratory Well. Irrespective of the results of the drilling, testing and completion of the well, whether dry hole or producing well, the Joint Venture's interest in the leases will remain in effect.

After the Joint Venture acquires its interest in the Cardinal #1 3D Lease, and the Capitalization Period terminates, the Joint Venture intends to enter into a Turnkey Drilling Contract with Carson, in its individual capacity, pursuant to which the Managing Venturer will cause to be assigned the leasehold interest in the Lease to the Joint Venture assume and be responsible for the Joint Venture's obligations in connection with the agreement with the other Working Interest Owners to drill, test, and complete (if applicable on the Cardinal #1 3D) the well on the Cardinal #1 3D Lease. The ultimate decision as to complete the well on the lease will be made by the majority of the Working Interest Owners including the Joint Venture. The Managing Venturer presently anticipates the Cardinal #1 3D Well will be drilled to a proposed total depth (PTD) of approximately

9,500' TVD or a lesser depth sufficient to test the objective Frio sand intervals in Galveston County, Texas. If the Working Interest Owners determine the Cardinal #1 3D Well is likely to be capable of commercial production, the well will be completed and the Joint Venture will be responsible for the Joint Venture's share of completion costs. The Completion Assessment is $18,982.48 per Unit for the Cardinal #1 3D Well. The Joint Venture will enter into a Turnkey Completion Agreement with Carson to undertake the Joint Venture's proportionate completion obligations.

F. Certain Risk Factors. Applicants should consider the various risk factors associated with the exploration and Development of oil and gas prospects and the Joint Venture. Such risks include but are not limited to: (a) the Joint Venture is newly formed and will have limited resources; (b) a Venturer has the status of a general partner and the Venturer's right in specific Joint Venture property is not assignable except in connection with the assignment of the rights of all Venturers in the same property. The Venturer's interest in the Joint Venture and the Lease is therefore illiquid and for all intents and purposes nontransferable; (c) Venturers, as general partners, have joint and several liability for all of the debts, obligations, acts, omissions, risks, and liabilities of the Joint Venture, which Carson believes will be ameliorated by insurance, except in the instance of title; (d) tax considerations, including classification of the Joint Venture, allocations of losses, profits, gains, deductions, and credits, depletion allowance, passive activity limitations, taxable income, tax preference and recapture of intangible drilling costs, Internal Revenue Audits, state and local tax aspects, and management fees; (e) there can be no guarantee the well will maintain long term commercial production nor that any new well will have the same results any existing wells; (f) optional assessments and the risk of capital shortages; (g) the fact the Venturers will bear substantially all the financial risk associated with the Venture's Working Interest in a nonproductive or marginally productive Venture Well; (h) the fact a Venturer may be liable for Venture obligations in excess of their capital contributions; (i) the fact that the net revenue interest may vary dependent upon actual production unit approval from the regulatory agencies. (Net revenue in this agreement is estimated based upon the net revenue average of the prospect acreage in total). (j) the existence of potential conflicts of interest in the activities of the Joint Venture; (k) the fact although there have been wells drilled, tested and completed in the vicinity of the Cardinal #1 3D Well, there can be no guarantee any well drilled on the lease(s) will be commercially productive; (l) the fact that title insurance is not available for mineral leases and although all customary steps shall be taken to insure good valid title, Venturers must be willing to accept the risk of losing their entire investment, should the title become invalid; (m) the fact the ultimate decisions as to the operations on the Lease will be in the hands of the majority of Working Interest Owners and since the Joint Venture will own less than 50% of the Working Interest, the Joint Venture may be subject to decisions with which the Joint Venturers disagree;(n) the fact a large number of wells result in dry holes, and others do not produce oil and gas in sufficient quantities to make them profitable; (o) regulation of oil and gas production, pollution standards, and matters over which the Joint Venture may have no control; (p) the fact, in general, the proposed business of the Joint Venture is inherently speculative and Venturers must be willing to accept the risk of losing their entire investment, should the Cardinal #1 3D Well prove not

to be commercially productive; and (q) the risk of forfeiture for failure to pay completion / production Pipeline assessments.

G. Turnkey Drilling Contract. Upon termination of the Capitalization Period, the Joint Venture will enter into a Turnkey Drilling Contract with Carson, in its individual capacity. Pursuant to such contract, the Joint Venture will pay Carson the sum of $68,784.64 per Unit Subscribed (as more fully described in Section 6 subsection K, below) and paid for which Carson will assume and be responsible for all of the Joint Venture's financial obligations in connection with its allocation of Working Interest in the leases and drilling and testing of the Cardinal #1 3D Well (as more fully described in Section 6, subsection E, above). The Joint Venture's total financial responsibility to the Managing Venturer for the cost relating to the acquisition of its Working Interests in the leases and the drilling and testing of the well, and the organizational costs of the Joint Venture will be the Turnkey Drilling Contract price. The Turnkey Drilling contract requires Carson Energy, Inc. to be responsible for all of the costs for the drilling operations outlined as of the date of the Joint Venture funding, representing the Joint Venture interest in the Joint Venture well and operations authorized by the majority interest owners in the Cardinal #1 3D Well, including the Joint Venture. Carson Energy, Inc. shall not be liable for any costs incurred due to situations beyond its control including, but not limited to, Acts of God, encountering impermeable geological strata or operations that are not authorized by the majority interest owners in the Cardinal #1 3D Well. Any amounts in excess of Carson's costs incurred as a result of assuming and being responsible for the Joint Venture's financial obligations in connection with its acquisition of Working Interests in the leases and drilling and testing of the well will be retained by Carson as compensation. Neither the Joint Venture nor the Venturers will be liable to Carson for any costs incurred by Carson in performing its services pursuant to the Cardinal #1 3D Turnkey Drilling Contract which exceed $68,784.64 per Unit paid to it by the Joint Venturer for the drilling operations pertaining to the joint venture interest in the Cardinal #1 3D Well as described above.

H. Description of Leasehold. The leasehold interest to be assigned to the Joint Venture consists of approximately 250 +/- acres in Galveston County, Texas (the Cardinal #1 3D Leases). The Joint Venture will acquire up to a 6.00% Working Interest in the Cardinal #1 3D Leasehold.

I. Allocation of Income or Losses and Distributions. All deductions, credits and net losses of the Joint Venture will be allocated 1% to the Managing Venturer (as such) and 99% to the Venturers for federal income tax purposes. Subsequent Payout (the first point in time at which the Venturers have received distributions from Joint Venture revenues, in the aggregate, equal the amount of initial capital paid by such Venturer including Completion Assessments, but excluding Optional Additional Assessments), all such items will be allocated 11% to Managing Venturer and 89% to the Venturers. The net income, net losses and distributions, if any, attributable to the Venturers will be allocated among such Venturers in the proportion which their respective Units bear to the total Units of all Venturers.

J. Capitalization. At the termination of the Capitalization Period the Joint Venture will have Joint Venture capital equal to the amount of capital contributions received from the Venturers represented by the number of Units subscribed, and 1% of such sum, from Managing Venturer as its capital contribution. The initial capital may, in part, be comprised of additional participation by the Managing Venturer.

K. Use of Initial Capital. The Managing Venturer anticipates the total initial Joint Venture capital will be expended by the Joint Venture for the following purposes and in the following amounts: (a) the Turnkey Drilling Contract price of $68,784.64 per Unit subscribed for the Cardinal #1 3D Exploratory Well, (b) for the Turnkey Completion Contract for the Cardinal #1 3D Well, an amount equal to $18,982.48 per Unit subscribed and (c) a reserve.

L. Compensation to Managing Venturer. As a Management Fee for the supervision and management of the affairs of the Joint Venture during the drilling, testing and completion periods of Joint Venture Operations, the Managing Venturer will receive an amount equal to the excess, if any, of the Turnkey Drilling and Completion Prices over the actual cost of its obligations pursuant the Turnkey Contracts. Since the actual cost to be expended for drilling and completion activities pursuant to those contracts is dependent upon a variety of conditions which may be encountered, none of which can be predicted with any degree of accuracy, the amount of compensation to be received by the Managing Venturer cannot be accurately predicted in advance.

M. Organizational Costs. From payment by the Joint Venture to Carson pursuant to the Turnkey Drilling Contract, Carson will pay for all costs and expenses (including, but not limited to, legal and accounting fees, Organizational Expenses, and Carson's general and administrative expenses during the Capitalization Period) incurred in connection with the formation and capitalization of the Joint Venture.

N. Plan of Capitalization. Capitalization for Units in the Joint Venture may be received by Carson and by authorized representatives of the Managing Venturer. Applicants must have completed and executed this contract and meet the Managing Venturer's suitability requirements. Applicants must be qualified participants as set forth below.

O. Completion Assessment. The Joint Venture may request each Venturer to contribute additional capital to the Joint Venture equal to $18,982.48 per Unit for the Cardinal #1 3D, (the Completion Assessment") for the purpose of completing the Cardinal #1 3D Exploratory Well if such completion attempts are warranted, requested by the majority of Working Interest Owners, and voted upon by the Joint Venture. The completion activities are proposed to be undertaken pursuant to the Cardinal #1 3D Turnkey Completion Contract to be entered into between the Joint Venture and Carson, in its individual capacity (the Cardinal #1 3D Completion Contract). The failure of a Venturer to contribute his (her) proportionate share of Completion Assessment shall be deemed to be a negative vote for completion and a request that his (her) interest in the Joint Venture be abandoned, and he (she) shall effectively withdraw as a Venturer with no

further benefits, rights or obligations with respect to the sharing of income, gains and losses.

P. Cardinal #1 3D Turnkey Completion Contract. If the majority of Working Interest Owners determine to complete the Well and the Venturers Vote to participate in such completions, the Joint Venture will enter into the Cardinal #1 3D Turnkey Completion Contract with Carson in its individual capacity, pursuant to which the Joint Venture will pay to Carson the Sum of $18,982.48 per Unit for Cardinal #1 3D Well subscribed and paid for which Carson will assume and be responsible for all of the Joint Venture's financial obligations in connection with the completion efforts on the Cardinal #1 3D Exploratory Well. This responsibility will include any and all costs necessary to begin initial production testing through the production tree for the Cardinal #1 3D Exploratory Well. The Turnkey Completion contract requires Carson Energy, Inc. to be responsible for all of the costs for the standard completion operations outlined as of the date of the Joint Venture funding, representing the Joint Venture interest in the Joint Venture well and operations as authorized by the majority interest owners in the Cardinal #1 3D Well, including the Joint Venture. Standard Completion operations include setting of completion casing, production packer, production tubing and perforating the initial zone for production testing. Carson Energy, Inc. shall not be liable for any costs incurred due to situations beyond its control including, but not limited to, Acts of God, encountering impermeable geological strata or operations that are not authorized by the majority interest owners in the Cardinal #1 3D Well or operations over and above the Standard Completion Operations. All costs incurred after initial production testing through the production tree has commenced shall be allocated as production expenses for the Cardinal #1 3D Exploratory Well excluding those costs which pertain to Section P1 further described hereafter. The Joint Venture's total financial responsibility to the Managing Venturer for the costs relating to the completion of the Well will be the Cardinal #1 3D Turnkey Completion Contract Price. Any amounts in excess of Carson's cost incurred as a result of assuming and being responsible for the Joint Venture's financial obligations in connection with the Standard Completion Operations on the Well will be retained by Carson as compensation. Neither the Joint Venture nor the Venturers will be liable to Carson for any costs incurred by Carson in performing its services pursuant to the Turnkey Completion Contract which exceed $18,982.48 per Unit for the Cardinal #1 3D Well paid to it by the Joint Venture for the completion operations pertaining to the joint venture interest in the Cardinal #1 3D Well as described above.

Q. Restriction on Transfer. Pursuant to the Joint Venture Agreement, Units in the Joint Venture may not be sold, transferred or assigned except in accordance with provisions of the Joint Venture agreement and the Texas Revised Partnership Act. Units will be subject to a right of first refusal by the Managing Venturer and the Venturers, as the case may be, and may only be transferred with the express written consent of a Majority in interest of the Venturers, which consent may be withheld in their sole and absolute discretion.

R. Optional Additional Assessments. Subsequent to the acquisition of its interest in the leases and the drilling, testing and completion of the well, if appropriate on

the Cardinal #1 3D Well or Lease, the Working Interest Owners may determine to undertake Subsequent Operations (activities not part of initial operations, which are deemed necessary by the majority of Working Interest Owners to more fully develop the prospect, such as drilling additional wells on the lease). The Venturers shall have the election as to whether or not the Joint Venture shall commence or undertake its proportional interest in such operations. (To the extent the Venturers determine the Joint Venture should not participate in subsequent operations on the leases, the Joint Venture may lose any interest in such subsequent operations.) Further, upon majority vote of the Joint Venturers, Optional Additional Assessments may become mandatory if such operation is either lease saving or necessary for well production. In such event, Optional Additional Assessments will be subject to the same terms as a mandatory Completion Assessment (only upon majority vote of the Joint Venturers).

S. Suitability Standards. The Managing Venturer intends for each investor to meet the suitability standards of an "Accredited Investor" which is defined as follows: (1) Any bank as defined in section 3(a)(2) of the Act, or any savings and loan association or other institution as defined in section 3(a)(5)(A) of the Act whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to section 15 of the Securities Exchange Act of 1934; any insurance company as defined in section 2(13) of the Act; any investment company registered under the Investment Company Act of 1940 or a business development company as defined in section 2(a)(48) of that Act; any Small Business Investment Company licensed by the US Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of $7,500,000; any employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, if the investment decision is made by a plan fiduciary, as defined in section 3(21) of such act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of $7,500,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors; (2) Any private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940; (3) Any organization described in section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the Units offered, with total assets in excess of $7,500,000; (4) Any Director, executive officer, or general partner of the issuer of the Units being offered or sold, any director, executive officer, or general partner of a general partner of that issuer; (5) Any natural person whose individual net worth, or joint net worth with that person's spouse, at time of his (her) purchase exceeds $1,000,000; (6) Any natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year; (7) Any trust with total assets in excess of $7,500,000, not formed for the specific purpose of acquiring the Units offered, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii); and (8) Any entity in which all of the equity owners are accredited investors.

T. Additional Information. Each Applicant is encouraged to request such additional information, as the Applicant deems important in determining whether to participate in the Joint Venture. Upon request, the Managing Venturer will provide the Applicant with such additional information including, but not limited to, information regarding general tax considerations, risk factors, Carson and its affiliates, the operator of the leases, the other Working Interest Owners, and any other information available to Carson which the Applicant deems important in determining whether to participate as a Venturer. The Managing Venturer will not release personal information about Applicants and/or other Venturers.

7. Applicant Representations. Applicant warrants and represents, prior to making a decision whether to participate in the Joint Venture, he (she) will conduct a personal investigation and will research and consider all factors that bear on the advisability of participating in the Venture, and his (her) decision will not be based solely upon the representations of the Managing Venturer or its affiliates or representative. As a condition to the acceptance to this Application Agreement by the Managing Venturer and Applicant's admission as a Joint Venturer, and knowing the Managing Venturer, as well as other Venturers will rely upon the statements made herein in determining the suitability of the Applicant as a Venturer, Applicant represents, certifies, stipulates and warrants to the Managing Venturer, the Joint Venture and other persons who may become Joint Venturers, as follows:

A. The interest in the Joint Venture to be held by Applicant will be acquired by Applicant for Applicant's own account or benefit and not for the account, in whole or part, of any other person or business entity, and Applicant has no present intention of selling or distributing such interest or Units or any part there of. Applicant understands the Units may not be sold, hypothecated, pledged, transferred, assigned or disposed of except in accordance with substantial restrictions on transfer to be contained in the Joint Venture Agreement.

B. The funds tendered herewith by Applicant for the Joint Venture do not represent funds borrowed by Applicant from any person or lending institution except to the extent the Applicant has a source of repaying such funds other than from the sale of the Units. The units will not be pledged or otherwise hypothecated for any such borrowing.

C. Applicant is experienced in business matters and has sufficient business acumen to analyze and evaluate the merits and risks of participating in the Joint Venture. The undersigned acknowledges and understands participation in the Joint Venture is not intended nor considered by the Managing Venturer to be "securities" as that term is used in state and federal securities regulation; notwithstanding the foregoing the Managing Venturer may nonetheless seek to qualify the offer and sale of securities as transactions exempt from registration requirements of federal and state securities laws and regulations, as if the Units were securities; the Managing Venturer will rely upon the representation of applicant, as herein contained in other documents provided to applicant,

in the application for qualification for any such aforementioned exemption; participation in the Joint Venture is an active venture requiring the exercise of experience and knowledge in business affairs while participating as a Venturer, and participating in the Joint Venture is not a passive investment activity. Accordingly, the Applicant warrants and represents that he (she) possesses extensive experience and knowledge in business affairs such that he (she) is capable of intelligently exercising his (her) management powers as a Joint Venturer. In addition, the undersigned warrants and represents he (she) is not relying on the unique entrepreneurial or managerial ability of Carson for the success of the Joint Venture, and his (her) experience and knowledge in business affairs enable him (her) to replace Carson as Managing Venturer and otherwise exercise meaningful joint venture powers. Applicant understands and stipulates for all purposes that other entities, persons and/or organizations and related oil and gas experts are readily available in Texas which are competent to perform Carson's functions, many of which are listed on the Approved Oil and Gas Operator list from the State of Texas *(Available at the Texas Railroad Commission, Link available on the General Information section of the Carson Energy, Inc. Website at carsonenergy.com.*

D. Applicant recognizes the Joint Venture has not yet been formed and, when formed will have no history of operations or earnings. Applicant further recognizes the Venture is extremely speculative in nature and involves special risks and the total amount of funds tendered by applicant to capitalize the Joint Venture is placed at risk and may be completely lost. Therefore, Applicant warrants and represents he (she) has the prudent financial capability to withstand the loss of his (her) funds without suffering undue financial hardship.

E. Applicant understands and realizes the Units cannot be readily sold or liquidated in case of an emergency or other financial need further, in any event, the transfer of the Units is extremely restricted. Applicant further represents that sufficient liquid assets are otherwise available to Applicant so participation in the Venture will cause no undue financial difficulties.

F. Applicant understands his (her) interest in the Joint Venture may not represent satisfactory collateral for personal loans.

G. Applicant understands this Application Agreement, and all other documents delivered to Applicant in connection with the Joint Venture are confidential documents prepared solely for the benefit of qualified participants acceptable to the Managing Venturer. Applicant agrees he (she) will not reproduce or distribute any of such documents in whole or in part. In the event Applicant elects to rescind the application for Units tendered hereby, Applicant will promptly return all such documents to the Managing Venturer.

H. All communication relating to participating in the Joint Venture has been made only through direct, personal communications between Applicant and representatives of the Managing Venturer.

I. The information provided by Applicant to Managing Venturer relating to Applicant's Qualifications and suitability remains true, correct and complete as of the date hereof, and Applicant shall immediately notify the Managing Venturer in writing of any material change therein prior to admission as a Venturer.

J. Applicant is aware the Managing Venturer and affiliated persons and organizations are and may in the future be engaged in businesses which are competitive with the business of the Joint Venture and agrees and consents to such activities, even though there are conflicts of interest herein.

K. Applicant is not, as of the date of the execution hereof, and has not at any time during the ninety (90) day period immediately preceding the date of the execution hereof, been insolvent or an adjudicated bankrupt under any applicable federal or state bankruptcy or insolvency statutes.

L. Applicant is an Accredited investor as herein defined. All representations, certifications and warranties made by the undersigned applicant herein (or elsewhere) shall survive his (her) admission as a Joint Venturer to the Joint Venture, and shall constitute a condition precedent to his (her) acceptance by the Managing Venturer.

8. Indemnity. Applicant recognizes the approval of his (her) participation in the Joint Venture will be based upon his (her) representations, certifications and warranties set forth herein and in other instruments and documents relating to the application for Units in the Joint Venture, and hereby agrees to indemnify and defend the Managing Venturer (and its affiliates), the other Venturers, and the Joint Venture, and to hold such entities and each officer, director, employee, partner, and agent and attorney thereof harmless from and against any and all loss, damage, liability or expense including costs and reasonable attorney's fees, to which they may be put or which they may incur by reason of, or in connection with, any misrepresentation made by Applicant in this Application Agreement or elsewhere, any breach by Applicant of his (her) warranties or failure by him (her) to fulfill any of his (her) covenants or agreements set forth herein (or elsewhere) or arising out of the participation in the Joint Venture in violation of applicable federal or state laws.

9. Entire Agreement. This writing, along with the Joint Venture Agreement and exhibits attached thereto, contains the entire agreement of the parties with respect to the matters contained herein, supersedes all oral agreements and representations, and may be changed, altered or amended only by a writing specifically referring to this Application Agreement and signed by the party against whom enforcement of the change, alteration or amendment is sought.

10 Applicable Law. The Agreement and the application or interpretation hereof shall exclusively be governed by and construed in accordance with the laws of the State of Texas. This Agreement shall be deemed to be performable in and venue shall be mandatory in Travis County, Texas.

IN ACCORDANCE WITH THE TERMS AND CONDITIONS HEREIN ABOVE SET FORTH, Applicant hereby tenders to the Managing Venturer his (her) application for the number of Units of Joint Venture interest in the Joint Venture set forth below in the amount of $68,784.64 per Unit and tenders herewith the initial cash capitalization amount as indicated, to wit:

UNITS IN THE CARSON ENERGY GROUP CARDINAL #1 3D JOINT VENTURE

________________________________ (_____) **Units**

AMOUNT TENDERED (Number of Units x $68,784.64. per Unit):
(Make checks payable to Carson Group Special Account)

____ **Dollars ($_______________)**

DATED this _____day of ___________________________, 2011

____
APPLICANT (Signature)

____
Name of Applicant (printed or typed)

____
Street Address of Applicant

____
City and State **Zip Code**

____
Phone Number

____
Social Security Number

CG____________________
Confirmation Number

EXHIBIT
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8

JOINT VENTURE AGREEMENT

OF
CARSON ENERGY GROUP "CARDINAL #1 3D"
JOINT VENTURE

(A TEXAS JOINT VENTURE)

THIS JOINT VENTURE AGREEMENT is made and entered into effective July 5, 2011 by and among CARSON ENERGY, INC. ("Carson"), a Texas corporation with offices and principal place of business at 1114 Lost Creek Blvd, Fifth Floor., Austin, Texas 78746, as the Managing Venturer, and all of the parties admitted to the Joint Venture created hereby as Joint Venturers, as provided herein. All capitalized terms used herein shall have the meaning assigned thereto in Section 1.7 hereof, unless otherwise defined elsewhere herein.

ARTICLE I

GENERAL

1.1: Formation of Joint Venture. The parties hereby form a Joint Venture pursuant to the laws of the State of Texas, which shall be governed by this Agreement and the provisions of the Texas Revised Partnership Act as revised January 1, 1994.

1.2: Managing Venturer. Carson shall be the initial Managing Venturer of the Joint Venture, and the address of such Managing Venturer is the address of Carson as designated above.

1.3: Name. The name of the Joint Venture shall be "Carson Energy Group Cardinal #1 3D Joint Venture". The name of the Joint Venture may be changed at any time and from time to time, or the Joint Venture may operate under different names in any jurisdiction in which the Joint Venture does business, as determined by Vote of the Venturers.

1.4: Principal Business. The purposes for which the Joint Venture is organized are:

(a) To acquire a part of the working interest in that certain oil and gas prospect (hereinafter, the "Prospect") more fully described in the Application Agreement (as defined herein), and relating to this Joint Venture;

(b) To acquire, drill or otherwise explore for, discover, develop, and operate oil and gas wells and properties, or any interest therein whether on its own behalf or in association with others as Joint Venturer, Partner or otherwise;

(c) To purchase, acquire, sell, dispose, explore, operate and produce oil, gas, minerals and properties and all things incident thereto including, but not limited to the making of dry hole and bottom hole contributions, the granting or farming out of all types of mineral interests, and with respect to the business of the Joint Venture, the construction and operation, alone or with others, of any project or operation on any lease for the treatment or refining of oil, gas and minerals and for the construction of systems for the production, collection, storage, treatment or delivery of the same or the products thereof; and

(d) To perform any acts as the Joint Venture in its sole discretion determines to be necessary, desirable or convenient in accomplishing the foregoing purposes.

1.5: Principal Place of Business. The location of the principal place of business of the Joint Venture is 1114 Lost Creek Blvd., Fifth Floor, Austin, Texas 78746, or such other place or places as the Venturers determine by Vote. The place of residence of each Venturer shall be as set forth on his Execution Page and Power of Attorney attached hereto as Exhibit "A". All such addresses shall be subject to change upon notice pursuant to Section 10.1 hereof.

1.6: Term. The Joint Venture shall be effective from and after the date that first appears on this document. The Joint Venture shall terminate on the earlier to occur of:

(a) The 20th day June, 2041, or

(b) Such date as is required by Section 9.1 hereof.

1.7: Definitions. For the purposes of this Agreement, the following terms shall have the meanings indicated:

"ACT" means the Texas Uniform partnership Act as revised January 1, 1994, as from time to time amended.

"ADDITIONAL ASSESSMENT CONTRIBUTIONS" means with respect to any Participating Venturer the sum of the Optional Additional Assessments paid by such Participating Venturer on his own behalf plus the Optional Additional Assessments paid by such Participating Venturer on behalf of a Non-Participating Venturer.

"AFFILIATE" with respect to the Managing Venturer means:

(a) any person directly or indirectly owning, controlling or holding with power to vote, 10% or more of the outstanding voting rights of the Managing Venturer;

(b) any person, 10% or more of whose outstanding voting rights are directly or indirectly owned, controlled, or held with power to vote, by the Managing Venturer;

(c) any person directly or indirectly controlling, controlled by or under common control with the Managing Venturer;

(d) any officer, director or partner of the Managing Venturer; and

(e) if the Managing Venturer is an officer, director or partner, any company for which the Managing Venturer acts in any such capacity.

For the purposes of this Agreement, any partnership of which Carson is a general partner, or any Joint Venture in which Carson is a Joint Venturer, is an Affiliate of Carson.

"AGREEMENT" or "JOINT VENTURE AGREEMENT" means this Agreement between Carson as the Managing Venturer, and the Venturers, together with all amendments hereto.

"AMOUNT REALIZED," means the amount realized by the Joint Venture for federal income tax purposes on a sale of a Joint Venture oil and gas property.

"APPLICATION AGREEMENT" means the confidential Application Agreement dated July 5, 2011 to which this Agreement relates.

"CAPITAL ACCOUNTS" of the Venturers shall be determined and maintained in accordance with the rules of Treasury Regulation section 1.704-1(b)(2)(iv) and, to the extent consistent therewith, each Venturer's Capital Account shall be increased by:

(a) The amount of money contributed by such Venturer to the Joint Venture;

(b) The fair market value of any property contributed by such Venturer to the Joint Venture (net of any liabilities securing such contributed property that the Joint Venture is considered to assume or take subject to under Code section 752);

(c) Allocations to such Venturer of income or gain (including tax exempt income) pursuant to Article VIII but excluding any income or gain described in Treasury Regulations section 1.704-1(b)(4)(i);

(d) The amount of Joint Venture liabilities assumed by such Venturer or that are secured by any Joint Venture property distributed so such Venturer other than the liabilities referred to in paragraph (f) below; and each Venturer's Capital Account shall be decreased by:

(e) The amount of any money distributed to such Venturer by the Joint Venture;

(f) The fair market value of any property distributed to such Venturer by the Joint Venture (net of any liabilities securing such distributed property that such Venturer is considered to assume or take subject to pursuant to Code section 752);

(g) The amount of losses costs and expenses allocated to such Venturer under Article VIII;

(h) The Venturer's allocable share of simulated depletion computed in accordance with Section 8.2;

(i) Allocations to such Venturer of expenditures of the Joint Venture described in Code section 705(a)(2)(B); and

(j) The amount of any liabilities of such Venturer that are assumed by the Joint Venture or that are secured by any property such Venturer contributes to the Joint Venture other than the liabilities referred to in paragraph (b) above.

"CAPITALIZATION PERIOD" means the period of time during which initial capitalization amounts will be received, up to and including September 25, 2011 unless extended by the Managing Venturer for a period of not more than ninety (90) days; provided, however, that the Managing Venturer, in its sole discretion, may terminate the Capitalization Period at any time prior to such date.

"CODE" means the Internal Revenue Code of 1986, as from time to time amended and any federal legislation that may be substituted therefore, including changes due to the 1993 tax reform act.

"COMPLETION ASSESSMENTS" means proportionate assessments of the Venturers, initial completion amount per Unit, voted upon by the Venturers to fund, among other things, the Completion aspects of Initial Operations, the nonpayment of which will constitute an election to withdraw from the Joint Venture with respect to such nonpaying Venturer's Units and interest in the Joint Venture. As its Completion Assessment, the Managing Venturer is only obligated to contribute 1% of all amounts received as Completion Assessments.

"FARMOUT" means an agreement whereby the Joint Venture would agree to assign its interest in a certain specific leasehold or a working interest owned by it to other parties, while retaining some part of its original interest (such as an overriding royalty interest, oil and gas payment, offset acreage, or other type of interest), subject to the drilling of one or more specified wells or other performance by other parties as a condition of the assignment.

"FEDERAL INCOME TAX ITEMS" means Profits, Losses, Gain From Capital Transactions and Loss From Capital Transactions.

"GAIN FROM CAPITAL TRANSACTIONS" means income or gain of the Joint Venture as determined for federal income tax purposes as a result of the sale, exchange, or refinancing of all or a portion of the Joint Venture's property other than depletable property.

"HOLDER OF RECORD" means the person in whose name any Unit is then registered on the books and records of the Joint Venture pursuant to Section 2.5 hereof.

"INITIAL OPERATIONS" means all activities commenced by the Joint Venture in connection with the acquisition of its interest in the Lease and drilling, testing and Completion of the Initial Well on the Prospect and the production of oil or gas there from.

"INITIAL JOINT VENTURE CAPITAL" means the total capital contribution to the Joint Venture actually paid by the Managing Venturer and Venturers as represented by Units, including the initial Completion Assessment, but excluding Optional Additional Assessments.

"INITIAL WELL (S)" means the well(s) proposed to be drilled, tested and, if appropriate, completed on the prospect as a part of Initial Operations.

"LEASES" means the oil, gas or mineral leases more specifically referred to in the Application Agreement.

"LIQUIDATOR" means the Liquidating Trustee(s) designated in Section 9.3 hereof to handle the liquidation of the Joint Venture.

"LOSSES" means each item of loss, deduction and credit of the Joint Venture as determined for federal income tax purposes, but excluding Loss From Capital Transactions.

"LOSS FROM CAPITAL TRANSACTIONS" means any loss of the Joint Venture as determined for federal income purposes as a result of the sale, exchange or refinancing of all or a portion of the Joint Venture's property other than depletable property.

"MANAGING VENTURER" means the person or entity appointed to act in the capacity of the managing Joint Venturer of the Joint Venture.

"NET CASH FLOW" means Monies available from the operation of the Joint Venture without deduction for depreciation but after deducting Monies used to pay or establish a reserve for all other expenses, debt payments, improvements and repairs related to the Operation and administration of the Joint Venture.

"NET PROCEEDS" means the amount realized by the Joint Venture on the disposition of a Joint Venture property, less all fees, costs or expenses paid or to be paid with respect thereto and the amount of indebtedness (if any) of the Joint Venture paid or to be paid from such Monies.

“NET REVENUE INTEREST” means the percentage of well revenue less override royalty interest and other lease encumbrances. Net revenue interest may vary dependent upon actual production unit approval from the regulatory agencies. (Net Revenue Interest in this agreement is estimated based upon the net revenue average of the prospect total acreage.)

"NON-PARTICIPATING VENTURER" means any Venturer who fails to contribute Completion Assessments or Optional Additional Assessments.

"OPERATIONS" means any Joint Venture activity related to (I) acquiring the Prospect; (ii) drilling any well on the Prospect; (iii) testing, completing, equipping, reworking, deepening, recompleting, capping or plugging any well on a Prospect; (iv) installing, pumping, producing, processing, gathering and/or transporting facilities to produce, gather, and/or transport any oil or gas produced from any well on the Prospect; (v) conducting any secondary recovery operation on or with respect to the Prospect; or (vi) conducting any activity incident to the foregoing as may be deemed necessary by the Venturers in furtherance of a Joint Venture purpose; provided, however, that in no event shall Operations be deemed to include (a) the sale of substantially all the assets of the Joint Venture; (b) liquidation of the Joint Venture; (c) dissolution of the Joint Venture; (d) amendment of the Joint Venture Agreement; (e) engaging or entering into a business combination which results in a fundamental change in the Joint Venture as an entity; (f) approval of loans to the Managing Venturer ; and (g) effecting any borrowings on behalf of the Joint Venture.

"OPTIONAL ADDITIONAL ASSESSMENTS" means assessment of Venturers requested by the Joint Venture to fund a Subsequent Operation, the payment of which shall be wholly voluntary.

"PARTICIPATING VENTURER" means any Venturer, including the Managing Venturer, electing pursuant to the provisions of Section 2.10 to contribute Optional Additional Assessments with respect to any particular Subsequent Operation, and/or any additional Venturers admitted to the Joint Venture to contribute Optional Additional Assessments with respect to any particular Subsequent Operation on behalf of a Non-Participating Venturer.

"PAYOUT" means the first point in time at which Venturers have received distributions, on a well-by-well basis, of Net Cash Flow and Net Proceeds relating to the Initial Operations that, in the aggregate, equal the Initial Joint Venture Capital.

"VENTURERS" means the Managing Venturer and all of the Venturers of the Joint Venture, unless the context requires a reference to all Venturers other than the Managing Venturer (such as in sections concerning capital contributions). The term "VENTURER" refers to any Venturer or to the Managing Venturer of the Joint Venture, as the context requires.

"JOINT VENTURE" or "VENTURE" means this Joint Venture formed under Texas law and governed by this Agreement and the Texas Uniform Partnership Act as revised January 1, 1994. The Joint Venture will not commence Operations until the Capitalization Period is closed.

"PROFITS" means each item of income and gain of the Joint Venture, as determined for federal income tax purposes, but excluding Gain From Capital Transactions.

"SUBSEQUENT OPERATIONS" means activities not part of Initial Operations that the Managing Venturer deems necessary to further develop the Prospect subsequent to the drilling, testing and Completion of the Initial Well on the Prospect.

"SUBSTITUTE VENTURER" means any person not previously a Venturer who purchases Units from a Venturer in accordance with the terms of this Agreement. After admission, all Substitute Venturers shall have all of the rights of a Venturer.

"UNITS" means interests in the Joint Venture initially authorized in accordance with the provisions of Article II hereof and allocated to the Venturers as shown on the books and records of the Joint Venture on the date of the event for which such Units are to be computed.

"VOTE" refers to the right of the Venturers, subject to all limitations set forth below and elsewhere in this Agreement, to decide any matter that may be submitted for decision by the Venturers in accordance with the express written terms of the Agreement or under the provisions of the Act. Each Venturer, including the Managing Venturer, shall be entitled to cast one vote for every one-half held of record by him

on the date when notice is given of the matter to be voted on or consented to by the Venturers. Except as otherwise expressly provided in this Agreement,

A Vote of the Venturers owning a simple majority of the Units shall be sufficient to pass and approve any matter submitted to a Vote of the Venturers. Whenever a Vote of the Venturers is required or permitted, a written consent to the action to taken signed by the Venturers holding the required percentage may be used in lieu of holding a formal meeting at which a Vote is taken. The rights of the Venturers to require or be permitted to vote on any matter shall be subject to and conditioned upon the requirements set forth in Section 4.11 hereof.

ARTICLE II

VENTURERS, CAPITALIZATION AND ASSESSMENTS

2.1: Managing Venturer. Carson shall be the initial Managing Venturer of the Joint Venture. The Joint Venture and all of its affairs, property, business, and Operations shall be managed and controlled by the Venturers; provided, however, that the Venturers expressly delegate day to day management of the Operations of the Joint Venture to the Managing Venturer.

2.2: Venturers. The Venturers of the Joint Venture shall be those persons participating in the Joint Venture as hereinafter authorized and provided, and defined as Partners herein.

2.3: Participating in Units by Managing Venturer. The Managing Venturer may:

(a) acquire Units pursuant to Section 2.4 hereof; or

(b) purchase Units of selling Venturers pursuant to Article VI hereof.

2.4: Authorized Units. The interests of the Venturers in the Joint Venture shall be represented by Units, and there are hereby authorized a maximum of 18 Units which may decrease dependant upon interest availability.

2.4.1: Applications by Proposed Venturers. During the Capitalization Period, the Managing Venturer shall have the right to admit to the Joint Venture as Venturers those persons who are acceptable to the Managing Venturer and who otherwise satisfy the requirements of this Agreement. The Managing Venturer may, in its sole discretion, decline to admit any person or persons as a Venturer for any reason whatsoever. All applications that are rejected shall be returned to the person submitting such funds together with all funds tendered. Persons whose applications are accepted by the Managing Venturer will be admitted as Venturers in the order that their applications are accepted and payment is received by the Managing Venturer, until the Capitalization Period terminates. Each Venturer, upon signing this Agreement, hereby Votes to admit all initial Venturers whose applications have been so accepted.

2.4.2: Time Of Admission. A person shall be deemed to have been admitted a Venturer on the first day of the calendar month after which a Venturer is accepted in accordance with Article VI herein.

2.4.3: Contribution Per Unit. The amount contributed for each Unit shall be $68,784.64 (Drilling and Testing). The amount so contributed by each Venturer shall be payable entirely in cash.

2.4.4: Execution by Venturers. By executing the Application Agreement each Venturer agrees to contribute to the capital of the Joint Venture the amount shown in his Application Agreement.

2.4.5: Maximum Venturers' Initial Capital. Applications to participate in Units may be accepted by the Managing Venturer, in its sole discretion, during the Capitalization Period up to and including the

maximum Venturers' Initial Capital of 18 Units, exclusive of the Managing Venturer's capital contribution. The Joint Venture shall not be obligated to fund all units.

2.4.6: Contributions to Capital by Managing Venturer. Upon the admission of all Venturers, the Managing Venturer shall contribute to the Venturer's capital an amount of 1% of the aggregate Venturers' Initial Capital. The Managing Venturer shall also contribute 1% of all Completion Assessments (but not Optional Additional Assessments) when and if called for and paid.

2.5: Registration. Upon the admission of a person as a Venturer, such person shall be registered on the records of the Joint Venture as a Venturer and a Holder of Record, together with his address and the Unit(s) representing his aggregate contribution to Joint Venture capital. Upon the assignment of a Unit pursuant to the terms of Article VI hereof, the assignee of such Unit shall be registered on the records of the Joint Venture as a Holder of Record, together with his address and the Unit(s) representing his or her transferor's aggregate contribution to Joint Venture capital.

2.6: Rights of Holders of Record. A Holder of Record shall be entitled to all distributions and all allocations of Net Cash Flow, Net Proceeds, Amount Realized and Federal Income Tax Items with respect to Unit(s) registered in his name in the manner specified in Section 8.6 until his rights in such Unit(s) have been transferred and the Managing Venturer has been notified as required herein. The payment to the Holder of Record of any allocation or distribution with respect to such Unit(s) shall be sufficient to discharge the Joint Venture's obligation in respect thereto.

2.7: Initial Capital Contributions. The Joint Venture shall have as its initial capitalization an amount equal to the amount of total Venturer's capital contribution at the close of the Capitalization Period, plus the Managing Venturer's initial capital contribution.

2.8: Capital Assessments. If the Venturers determine by a Vote that the Joint Venture requires additional capital for the purpose of continuing Joint Venture Operations, each Venturer shall, within five (5) days after the Vote, contribute the additional funds, which, when paid, shall be treated as Capital Contributions to the Joint Venture. Each Venturer shall contribute his pro rate share of the additional capital based on the amount of initial capital contributed unless the Venturers unanimously agree upon a different basis for determining the amount for each Venturer's contribution. The procedure for calling for such Other assessments, as well as the rights and obligations of Venturers upon failure of a Venture to contribute appropriate assessments, shall be the same as determined under Section 2.8 herein with respect to Completion Assessments. However, notwithstanding anything herein to the contrary, all Venturers shall remain liable for Joint Venture obligations in accordance with the Act and Section 2.13 herein.

2.8.1: Amount of Assessment. In the event the Venturers determine by a Vote that the Joint Venture requires additional capital in order to fund operations after the initial Turnkey Drilling and Testing operations are completed, the Venture may call for additional capital contributions from the Venturers not to exceed $18,982.48 per Unit for the 1st Stage Turnkey Completion for the Cardinal #1 3D if applicable and voted for by the majority of the Joint Venture for each well per Unit. The Managing Venturers participation in the Completion Assessments will be limited to 1% of total Completion Assessments received.

2.8.2: Time of Payment. The request for a Vote on the payment of Completion Assessments shall be in writing and shall set forth the particulars with respect to the estimated costs thereof, and the Venturers will have ten (10) days from the date of mailing of such request (or three (3) days if such request is made by telegram, facsimile or overnight delivery) to make the requested additional contribution.

2.8.3: Failure to Contribute Completion Assessments. By failing to contribute Completion Assessments, a Venturer votes against attempting to complete the Initial Well and elects to withdraw from the Joint Venture. A Venturer so electing abandons all of his interest and rights in the Joint Venture and all rights except those expressly given to such Venturers under the terms of this Agreement, and thereby becomes a Non-Participating Venturer.

2.8.4: Contribution by Managing Venturer. The Managing Venturer shall have the right to pay the Completion Assessment of any Non-Participating Venturer and succeed to all rights of, including the Unit(s) purchased by, the Non-Participating Venturer.

2.8.5: Contribution by Other Venturers. If the Managing Venturer declines or is unable to pay all or any part of the Completion Assessment of a Non-Participating Venturer, the Venturers who have contributed their Completion Assessment may contribute the Completion Assessment of such Non-Participating Venturer pro rata or in such other proportion as may mutually be agreed upon by the Venturers participating in the payment of the Completion Assessment of such Non-Participating Venturer. The Venturers that pay all or a part of such Completion Assessment shall succeed to all rights of the Non-Participating Venturer in such Units in the proportion in which they have paid the Completion Assessment of such Non-Participating Venturer.

2.8.6: Sale of Abandoned Units. If all Completion Assessments are not paid by the Managing Venturer or the Venturers, the Venturers shall be conclusively deemed to have consented to the sale by the Joint Venture of any abandoned Unit(s) or part thereof to, and the admission of, persons as Venturers as may be necessary to provide the capital required by the Joint Venture to fund the activity for which the Completion Assessment was called.

2.8.7: Other Sources of Funds. The Managing Venturer shall have the right but not the obligation to secure the necessary funds from other sources including loans (subject to approval by a Vote of the Venturers) or a FARMOUT of the Prospect, and if such funds are not obtainable, the Joint Venture may abandon the Initial Operations to which such Completion Assessments relates.

2.9: Optional Additional Assessments.

2.9.1: Assessments by Joint Venture. The Joint Venture may request Optional Additional Assessments if by a majority Vote of the Venturers, it determines that Subsequent Operations are desirable in order to more fully develop the Prospect. The Managing Venturer's participation in Optional Additional Assessments will be 1% of total Optional Additional Assessments received.

2.9.2: Failure to Contribute All Assessments. A Venturer shall initially have no obligation to pay any of the requested Optional Additional Assessments. If a Venturer agrees to pay any portion of an Optional Additional Assessment with respect to any particular Subsequent Operation and fails to contribute his entire proportionate share of all Optional Additional Assessments called for by the Joint Venture with respect to such Subsequent Operation, within the time specified in any request therefore, such Venturer shall thereby withdraw from the Joint Venture and abandon all of his interest in the Joint Venture with respect to such Subsequent Operations only. Such withdrawal shall not affect the Venturer's interest in the Joint Venture with respect to operations not related to such Subsequent Operation.

2.9.3: Notice of Assessment. As the Joint Venture recommends each Subsequent Operation, the Managing Venturer will give notice, in writing, to each Venturer stating the nature and purpose of the proposed expenditure, and will attach an estimate of the complete cost of such Subsequent Operation and such Venturer's proportionate share of the total Optional Additional Assessment. The Managing Venturer may request payment in full of such amount or payment of any portion thereof. The estimate shall not constitute a limit as to the total Optional Additional Assessments with respect to such Subsequent Operation. Neither the Managing Venturer, the Joint Venture nor anyone else shall be obligated to provide the notice contemplated by this Section 2.10.3 to Venturers who have not previously paid Optional Additional Assessments for Subsequent Operations.

2.9.4: Election to Participate by Venturers. Venturers may elect to be Participating Venturers with respect to any particular Subsequent Operation for which the notice was sent by sending to the Managing Venturer, within fifteen (15) days (or such other period of time not less than fifteen (15) days as the Managing Venturer may specify) after the mailing of such notice, payment in the amount of such

Participating Venturer's proportionate share of the expenditure estimated by the Managing Venturer to be necessary to finance the Subsequent Operation. Any Venturer shall be excluded from such Subsequent Operation and shall be a Non-Participating Venturer if his payment is either:

(a) Postmarked later than fifteen (15) days (or such other period of time as the Managing Venturer may specify) after the mailing of the notice of such Subsequent Operation; or

(b) Received by the Managing Venturer later than twenty (20) days after the date of such notice.

2.9.5: Status of Non-Participating Venturers. Non-Participating Venturers shall have no right or interest in the Subsequent Operation to which such Optional Additional Assessment relates and shall have no right to thereafter elect to participate in any future Subsequent Operation. Nevertheless, the Managing Venturer, in its sole and absolute discretion, may, but shall not be obligated to, allow any Non-Participating Venturer(s) to participate in some or all future Subsequent Operations.

2.9.6: Funds to Replace Those of Non-Participating Venturers. If less than 100% of the Venturers pay the Optional Additional Assessments for Subsequent Operations, the Managing Venturer shall have the option, in the exercise of its sole and absolute discretion:

(a) Pay the Non-Participating Venturer(s)' unpaid portion of such Optional Additional Assessment and be entitled to receive the Non-Participating Venturer(s)' allocable shares of Net Cash Flow, Net Proceeds, Federal Income Tax Items and Amount Realized attributable to such Subsequent Operations pursuant to Section 8.3.2 below;

(b) Allow any or all Participating Venturers to pay the Non-Participating Venturer(s)' unpaid portion of such Optional Additional Assessment and therefore be entitled to receive the Non-Participating Venturer(s)' allocable shares of Net Cash Flow, Net Proceeds, Amount Realized and Federal Income Tax Items attributable to such Subsequent Operations pursuant to Section 8.3.2 below;

(c) Offer Units of the Subsequent Operation for which such Optional Additional Assessment was requested, refund the Optional Additional Assessment proceeds previously paid by the Venturers and sell or Farmout the Prospect or portions thereof upon approval of the Venturers as provided herein.

2.10: Return of Capital. No Venturer has the right to require the return of all or any part of his capital contributions(s) or a distribution of any property from the Joint Venture prior to its termination and dissolution as provided herein.

2.11: Interest on Capital. No interest shall be payable on any capital contributions made to the Joint Venture or on any Capital Account.

2.12: Capital Account. An individual Capital Account shall be maintained for each of the Venturers as provided herein.

2.13: Liability for Continuing Obligations. As Joint Venturers, each Venturer has all of the rights, obligations, and liabilities under the Act, including joint and several liability for all of the debts, obligations, acts, omissions, risks and liabilities of the Joint Venture. Certain assessments, subject to appropriate Vote, may be made to meet Joint Venture obligations, as herein described. Upon the death, disability or other change in circumstances of a Venturer prior to completion of such Venturer's obligations to complete certain payments pursuant to this Section, such Venturer's estate, legal representative or successor shall have the status of the Venturer and of such Venturer's rights and responsibilities.

ARTICLE III

MANAGING VENTURER

3.1: Rights and Duties. The Joint Venture and all of its affairs, property, business, and Operations shall be managed and controlled collectively by all the Venturers; provided, however, that the Venturers expressly delegate management of the day to day Operations of the Joint Venture to the Managing Venturer.

3.2: Reimbursement and Compensation to the Managing Venturer. The Managing Venturer shall receive as full and complete compensation for its services as managing Venturer the following amounts:

3.2.1: Monthly Reimbursement to Managing Venturer. The Managing Venturer shall receive, on a monthly basis, a reimbursement from the Joint Venture for its General and Administrative Expenses (as defined in the Application Agreement) allocable to the Joint Venture, in a maximum amount of $500.00 per well of the Joint Venture. Such allocation shall be determined by the accountant for the Managing Venturer and shall be calculated in accordance with generally accepted accounted principles.

3.2.2: Management Fees. In consideration of the supervision and management of the affairs of the Joint Venture during the drilling, testing and, if advisable, the completion period of Initial Operations, the excess, if any, of the Turnkey Drilling and Completion Prices over the actual cost of its obligations pursuant to the Turnkey Drilling and Completion Contracts (all as defined in the Application Agreement) will be considered a management fee by the Managing Venturer. To the extent Optional Additional Assessments are called for and paid, and in the event that the operations conducted pursuant to such assessments are not performed on a turnkey basis, the Managing Venturer will also be entitled to receive an additional management fee of ten percent (10%) of such assessments.

3.2.3: Participation in Revenues. The Managing Venturer will be entitled to receive the allocations of Net Cash Flow and Net Proceeds as set forth in Section 8.3.

3.3: Interest of the Managing Venturer in Certain Transactions. The Managing Venturer shall not be deemed to have received commissions, fees or other compensation paid to any firm, proprietorship, partnership or corporation that is an Affiliate, or in which the Managing Venturer, or any partner, officer, director or employee thereof or any member of any such person's respective immediate family, owns a beneficial interest. Nothing contained in this Agreement shall be deemed to:

a) Restrict the right of the Managing or any Affiliate to be reimbursed for sums actually expended in conducting the business of the Joint Venture;

(b) Restrict the right of the Managing Venturer or any other person to receive the income or distributions to which they would otherwise be entitled as the Managing Venturer or a Venturer under the terms of this Agreement; or

(c) Prevent or restrict the Managing Venturer, or any related person or entity from obtaining or sharing in all or any part of any commissions or other sums payable in connection with any property purchased or sold by the Joint Venture.

ARTICLE IV

MANAGEMENT AND OPERATION

4.1: Management. The Joint Venture and all of its affairs, property, business, and Operations shall be managed and controlled collectively by all the Venturers; provided, however, that the Venturers

expressly delegate the day to day management of the Operations of the Joint Venture to the Managing Venturer. With respect to the purposes for which this Joint Venture is organized and without limiting the generality of its powers, and the definition of Operations there under, subject to the Vote of the Venturers, and with respect to any matter voted upon by the Venturers, the Managing Venturer is hereby expressly vested with the full and plenary power to:

(a) Investigate, evaluate and acquire investment opportunities for the Joint Venture, to acquire on behalf of the Joint Venture oil, gas and mineral properties or other interests upon such terms as it deems advisable;

(b) Retain or act as operator(s) and to cause such operator(s) to drill, complete, equip, test, rework, operate, and if necessary, plug and abandon wells of the Joint Venture;

(c) Conduct seismographic surveys and other geological operations and services;

(d) Execute and deliver any and all contracts and agreements, including purchase, Joint venture, Farmout and operating agreements and turnkey contracts, binding the Joint Venture in furtherance of the business purposes of the Joint Venture;

(e) Execute and deliver, and receive or pay the consideration for, all deeds and assignments of properties or other interests transferred or acquired by the Joint Venture;

(f) Make all elections or decisions, and bind the Joint Venture thereby, that may be necessary or permissible in connection with any purchase, Joint Venture or Farmout agreement or other type of contract under which an interest in properties is to be acquired, operated, sold or assigned (subject to Venturers' approval) by the Joint Venture;

(g) Maintain leases in force and effect (including paying delay rentals);

(h) Execute and deliver all checks, drafts, or other orders for payment of funds belonging to the Joint Venture;

(i) Execute and deliver division order, transfer orders, pooling orders, and assignments;

(j) Enter into and bind the Joint Venture in the execution of dry hole letters, bottom hole and acreage contribution agreements, and Farmouts, whether such agreements cover the assignment or transfer of properties or funds to or from the Joint Venture;

(k) Execute operating agreements whether or not the Joint Venture or the Managing Venturer may be designated as operator there under;

(l) Execute powers of attorney, consents, waivers and other documents that may be necessary before any court, administrative board or agency of any governmental authority, affecting the properties owned by the Joint Venture;

(m) Take and hold title to property, execute evidences of indebtedness or other obligations or instruments in its name or the name of a nominee all on behalf of the Joint Venture and with or without disclosing the true owner or party in interest thereto. The Joint Venture shall be solely entitled to all rights, titles, and interests held by the Managing Venturer or nominee on behalf of the Joint Venture and solely liable for all expenses, costs and other obligations incurred in connection therewith. All such instruments so executed may be transferred into the name of the Joint Venture by

assignment or otherwise or held in the name of the Managing Venturer or nominee as the Managing Venturer may determine; provided, always, that the Managing Venturer shall keep as part of the books and records of the Joint Venture and properly account on its books for each contract, deed, note or other instrument indicating the nominal parties thereto, thereof and general description of such document; and

(n) In general, execute all instruments of any kind or character may be necessary or appropriate in connection with the business of the Joint Venture. In addition, while the Venture has, based on currently available geophysical information, selected an oil and gas leasehold interest for exploration and development, prior to the commencement of drilling activities, the Managing Venturer, in association with the Operator and other Industry Partners, may review additional geological and geophysical data from other potential acreage and determine, subject to a contrary Vote, to explore and develop such other acreage in substitution for the drilling site described in Exhibit "D" to the Application Agreement. In the event that the Operator, with the consent of the Industry Partners representing a majority interest in the well, selects an alternative drilling site, Venturers will be appropriately notified, and the site will be located within the acreage designated on the geological map appended to the Application Agreement, and the Operator / Industry Partners believe that the geological considerations will be substantially the same (or more favorable) than the drilling site previously selected.

4.2: Third Parties. No person dealing with the Managing Venturer shall be required to determine its authority to make any undertaking or to execute any instrument on behalf of the Joint Venture, nor to determine any fact or circumstance bearing upon the existence of such authority, and all such instruments or undertakings shall contain such provisions the Managing Venturer deems expedient.

4.3: Obligations of the Managing Venturer as Joint Venture Manager. The Managing Venturer shall manage the Joint Venture affairs in a prudent and businesslike manner, and in accordance with good practices in the industry. Managing Venturer shall at no time, share personal, private or identifying information to any third party in regards to Venturers. The Managing Venturer at all times shall act in the best interest of the Joint Venture fulfillment of the purposes herein expressed and shall in all instances notify the Venturers of any transaction entered into between the Joint Venture and Carson Energy, Inc. or any Affiliate.

4.4: Insurance Coverage. In order to protect Joint Venture assets, the Managing Venturer may procure or cause to be procured and maintain or cause to maintained in force, or contract with others to obtain and maintain in force, such insurance as in its best judgment it deems prudent to serve as protection against liability for loss and damage that may be occasioned by the activities of the Joint Venture. The cost of obtaining such insurance shall be charged to and borne by the Joint Venture. The Managing Venturer shall not be liable to any Venturer for any loss that may be sustained by the Joint Venture because the Managing Venturer did not acquire or cause to be acquired any particular type of insurance.

4.5: Expenses. The Managing Venturer may charge to the Joint Venture and be reimbursed or pay out of Joint Venture funds, as and when available, all reasonable expenses incurred by the Managing Venturer in the operation of the Joint Venture including but not limited to expenses, charges and fees relating to:

(a) The acquisition, preservation, protection or perfection of title to the Joint Venture's property, including insurance thereon,

(b) The maintenance, operation or reworking of any Joint Venture property,

(c) Travel expenses, professional fees, attorney's fees and court costs,

(d) Taxes on real or personal property owned by the Joint Venture,

(e) Interest on any loan to the Joint Venture,

(f) Normal closing costs (in the event of a sale or transfer of all or any part of the Joint Venture's property),

(g) Expenses incurred in connection with the negotiation for, or consummation of financing or renewing, rearranging or refinancing any indebtedness on the Joint Venture's property,

(h) Operating Expenses (as defined in the Application Agreement) other than those paid through the Turnkey Contracts (as defined in the Application Agreement), and

(i) General and Administrative Expenses as provided in Section 3.2.1.

4.6: Interpretation. If any provision of this Agreement is unclear or ambiguous in the opinion of the Managing Venturer, the Managing Venturer, in its sole and absolute discretion, shall have the right and power to interpret such provision in accordance with the purposes, and in the best interests of the Joint Venture and all the Venturers; provided that the Managing Venturer may not interpret the provisions of Section 3.2 and Articles VIII and IX hereof so as to increase its compensation or authority as set forth herein or to limit the authority of the Venturers to manage the affairs of the Venture more fully set forth herein.

4.7: Reliance Upon Experts. The Managing Venturer may employ or retain such counsel, accountants, engineers, geologists, landsmen, appraisers or other experts or advisors as it may reasonably deem appropriate for the purpose of discharging its duties hereunder, and shall be entitled to pay the fees of any such persons from the funds of the Joint Venture. The Managing Venturer may act and shall be protected in acting in good faith on the opinion or advice of, or information obtained from any such counsel, accountant, engineer, geologist, appraiser or other expert or advisor, whether retained or employed by the Joint Venture, the Managing Venturer, or otherwise, in relation to any matter connected with the administration or operation of the business and affairs of the Joint Venture.

4.8: Limitations on Venturers' Acts.

4.8.1: Prohibited Acts. The Venturers, including the Managing Venturer, are expressly prohibited from entering into any contract other transaction would:

(a) Result in a possession of Joint Venture property or assignment of any rights in specific Joint Venture property, other than for a Joint Venture purpose; or

(b) Authorize the lending of Joint Venture funds to or borrowing funds from any partnership or Joint venture in which the Managing Venturer or an Affiliate is a General Partner or Managing Venturer.

4.8.2: Acts Requiring Super-Majority Approval. Except by the 70% Vote of the Partners, including the Managing Venturer, no Venturer has authority to:

(a) Assign the Joint Venture property in trust for creditors or on the assignees promise to pay the debts of the Joint Venture;

(b) Dispose of the good will of the business;

(c) Do any other act that would make it impossible to carry on the ordinary business of the Joint Venture;

(d) Confess a judgment;

(e) Contravene this Agreement; or

(f) Submit a Joint Venture claim or liability to arbitration or reference.

4.9: Other Permissible Activities. No Venturer is prevented hereby from engaging in other activities for profit, whether in the oil and gas business or otherwise. The Venturers, including the Managing Venturer and its Affiliates have and in the future may engage in other businesses including the organization and management of additional partnerships, limited partnerships, Joint Ventures or Corporations for the exploration of oil and gas and must necessarily divide time between the business of the Joint Venture and their other activities. The Venturers, including the Managing Venturer and its Affiliates are hereby authorized, during the life of the Joint Venture, to acquire oil or gas interests or properties and not offer the same to the Joint Venture. Further, nothing herein shall prevent another partnership organized by the Managing Venturer or any Affiliate from acquiring a prospect that is in the same geographical reservoir, as any Prospect owned by this Joint Venture.

4.10: Purchase of Oil and Gas Equipment from the Managing Venturer and Affiliates. The Joint Venture may purchase or acquire equipment necessary in the drilling, completion, reworking and operation of Joint Venture wells from the Managing Venturer, or an Affiliate, and such equipment may be new or used.

4.11: Meetings. The Venturers may develop such rules and procedures they deem necessary, desirable or convenient to provide for meetings of Venturers to vote, or to obtain the written Vote or consent of Venturers as to matters on which a Vote of the Venturers is sought. Such rules and procedures shall be in writing and shall provide for call and notice of meeting and quorum requirements (which shall be based on interests in the Joint Venture and shall require that holders of not less than fifty percent (50%) in interests (not in numbers) in the Joint Venture be present in person or by proxy). A copy of such rules and procedures shall be available for inspection by any Venturer at the principal place of business of the Joint Venture.

4.12: Tax Matters "Partner". The Managing Venturer shall be the "tax matters partner" for purposes of partnership and Joint Venture proceedings as described in Subtitle F, Chapter 63, Subchapter C, of the Code.

ARTICLE V

RIGHTS AND OBLIGATIONS OF VENTURERS; AMENDMENTS

5.1: Venturers' Delegation of Powers. At no time during the term of the Joint Venture shall a Venturer, other than the Managing Venturer, have the power to act on behalf of, sign for or bind the Joint Venture with respect to Operations of the Joint Venture, without a prior Vote.

5.1.1: Indemnity by Venturer. Each Venturer shall indemnify, defend, and hold harmless the Joint Venture and all Venturers (including the Managing Venturer), their officers, directors, agents and attorneys, from and against any loss, claim, cause of action, item of damage, expense, and cost (including attorneys' fees and court costs) arising directly or indirectly out of:

(a) Any act of such Venturer that is inconsistent with the rights and authority delegated to the Managing Venturer; and

(b) Any misrepresentation made by a Venturer in the Application Agreement or elsewhere, any breach by a Venturer of any of his warranties, and any failure by him to fulfill any of his covenants or agreements set forth herein or elsewhere.

5.1.2: Breach. Any action of a Venturer that is inconsistent with Section 5.1 hereof, shall:

(a) Constitute a breach of this Agreement on the part of the Venturer so acting;

(b) Render such Venturer subject to claims for damages asserted by the Joint Venture or the Venturers, as the case may be, to all rights of indemnification in favor of the Joint Venture and all of the Venturers as set forth in this Agreement; and

(c) Constitute grounds for the expulsion of such Venturer from the Joint Venture, in the discretion of the Managing Venturer or based upon a Vote.

5.2: Rights of Venturers. A Venturer shall have all the rights and obligations granted to a general partner and Joint Venturer under the Act, subject to the terms and provisions in this Agreement.

5.3: Proposal of Amendments. Amendments to this Agreement may be proposed by either the Managing Venturer or, subject to Section 4.11 hereof, by Venturers owning not less than ten percent (10%) in interest of all Units outstanding. Proposed amendments, subject to the conditions set forth in Section 5.5 hereof, may concern any Article of this Agreement.

5.4: Procedure to be Followed. Following any proposal of an amendment pursuant to Section 5.3 hereof, the Managing Venturer shall, within fifteen (15) days after receipt thereof, submit to all Venturers a verbatim statement of the proposed amendment. All proposed amendments, whether proposed by the Managing Venturer or by Venturers owning not less than ten percent in interest of the Joint Venture, shall be submitted to the Venturers for a Vote, within 30 days after the date of mailing such notice. For purposes of obtaining a written vote, the Managing Venturer of his support for or opposition to the amendment within the specified time shall be conclusively deemed to have opposed the amendment.

5.5: Amendments Not Allowable. No amendment shall change the contributions of the Venturers required herein or retroactively adversely affect the rights and interests of any Venturer, including the Managing Venturer, including any change in the allocations set forth in Articles VIII and IX hereof without affirmative written consent therefrom.

5.6: Meetings of Venturers. Subject to the requirements of Section 4.11 hereof, meetings of the Venturers may be called by the Managing Venturer and shall be called by it upon the written request of Partners holding ten percent (10%) or more in interest of the Joint Venture. The call will state the nature of the business to be transacted, and no other business will be considered. Venturers may vote in person or by proxy at any such meeting.

5.7: Removal of Managing Venturer. Subject to the requirements of Section 4.11 hereof, a Vote of the Venturers shall have the right to remove the Managing Venturer and substitute a new managing Venturer to carry the day-to-day Operations of the Joint Venture. The removal of the Managing Venturer shall not be retroactively effective.

5.8: Rights of the Managing Venturer Upon Removal. In the event the Managing Venturer is removed in accordance with Section 5.7 hereof, or the Managing Venturer withdraws or ceases to be a Venturer by operation of law, or otherwise, the removed Managing Venturer shall select an independent engineering firm to value the removed Managing Venturer's interest in the Joint Venture at its then present fair market value. In determining the fair market value of the Managing Venturer's interest, the independent engineer will take into account appropriate discount factors in light of the risk of recovery of oil and gas reserves. The incoming Managing Venturer or the Joint Venture may purchase for cash all or a portion of the interest of the removed Managing Venturer for the value determined by the independent engineering appraisal. The interest of the removed Managing Venturer by the Joint Venture and the removed Managing Venturer shall thereafter have no further interest in the Joint Venture, except as to the interest so assigned to it. Further, upon removal or withdrawal, the Managing Venturer shall be released and indemnified from all liabilities arising after the Managing Venturer ceases to be Managing Venturer.

ARTICLE VI

TRANSFER AND ASSIGNMENT OF UNITS

6.1: By Managing Venturer. The Managing Venturer may not, without the consent of 70% in interest of the Venturers, sell, transfer or assign its managing Venturer's interest in the Joint Venture; provided, however, that the Managing Venturer and any Affiliate, without the consent of the Venturers, may at any time sell, transfer or assign any Unit(s) then held by them as a Venturer, subject to this Article VI. Purchasers of Units from the Managing Venturers or such Affiliates shall be admitted as Substitute Venturers.

6.2: By Venturers. No Venturer (except a Venturer who sells his Units to the Managing Venturer) may sell or transfer all or any part of his Unit(s) until he shall first comply with the provisions of this Section; provided, however, that any sale, assignment or other transfer to Venturer's parents, spouse, siblings or children (either natural or adoptive) or to any trust of which the primary beneficiaries are the Venturer, his parents, spouse, siblings or children shall not be subject to the restrictions on transfer set forth in this Section 6.2.

6.2.1: Notice Required. Such selling Venturer shall deliver to the Managing Venturer a written notice (the "Notice") in which he shall:

(a) State his intention to sell or dispose of his Unit(s) or a part thereof;

(b) State the price and terms of the best bona fide offer he has received for the purchase of such Unit(s) and the name and address of the offer(s) making such offer, and

(c) Offer to sell such Unit(s) to the Managing Venturer on the same terms and conditions at any time within twenty (20) days after the delivery of such written notice.

6.2.2: Option. At any time during the twenty (20) day period after the delivery of the Notice, the Managing Venturer shall have the right and option to purchase the Unit(s) so offered by the selling Venturer, and if the Managing Venturer shall decline such purchase, then the remaining Venturers shall have such option for an additional twenty (20) days, on the terms and for the price set forth in the Notice. If the option is not exercised by the Managing Venturer or the remaining Venturers, the selling Venturer may within thirty (30) days, subject to the other provisions of this Agreement, sell the Unit(s) designated in the Notice but only in accordance with the terms stated in the Notice. If the sale is not completed within such thirty (30) day period, the Notice shall be deemed to have expired and a new Notice and option shall be required before any sale or disposition is made of the Units of the selling Venturer. No sale pursuant to this section may occur unless:

(a) The purchaser of such Unit(s) is a qualified purchaser and is approved as such by a Vote of the Venturers and in accordance with the suitability standards originally applied by the Managing Venturer to initial Venturers;

(b) The sale, transfer, assignment and conveyance is expressly made subject to the provisions of this Agreement;

(c) The purchaser assumes all of the obligations of the selling Venturer under this Agreement (including the execution of a power of attorney to the Managing Venturer); and

(d) The selling Venturer or purchaser delivers to the Managing Venturer opinion referred to in Section 6.7

6.2.3: Assignment of Venturers' Interest. Unless a Venturer is admitted as an additional Venturer, a conveyance by a Venturer of his interest in the Joint Venture does not of itself dissolve the Joint Venture, nor, as against the other Venturers, entitle the assignee, during the continuance of the Joint Venture, to interfere in the management or administration of the Joint Venture business or affairs; it merely entitles the assignee to receive in accordance with his contract the profits to which the assigning Venturer would otherwise be entitled and, for any proper purpose, to require reasonable information or account of Joint Venture transactions and to make reasonable inspection of the Joint Venture books.

6.2.4: Expenses. The Joint Venture may charge and receive from the selling Venturer an amount not exceeding $1,000.00 to defray its costs and expenses, including attorney's fees, in effecting the transfer and registration on its books of such Unit(s) thus sold.

6.2.5: Offer to Venturers. In the event that a Venturer, other than the Managing Venturer or an Affiliate to the extent it holds Unit(s), desires to sell his Unit(s) and has not received an offer to purchase same from any third party, he shall give the Notice required under Section 6.2.1 hereof (except that the price for such Unit(s) shall be as provided in Section 6.2.7 hereof), and subject to all other applicable terms and provisions of this Article VI, all Venturers shall have an option to purchase the Unit(s) so offered. In the event that no Venturer purchases such Unit(s), the selling Venturer shall have sixty (60) days after giving the Notice provided in Section 6.2.1 in which to sell such Unit(s) to any qualified person upon whatever he may negotiate before having to reoffer such Unit(s) to the other Venturers.

6.2.6: Exercise and Procedures. All rights and options provided in this Article VI may be exercised by the Managing Venturer and Venturers entitled and electing to exercise such options in proportion their interests in the Joint Venture or as they may mutually agree. The Venturers by Vote may promulgate such rules as they may deem appropriate and desirable to enforce the limitations on transfer of Units as set forth in this Article VI, establishing such policies, methods and procedures for effecting and evidencing such transfers as are in accordance with the provisions hereof and as may seem necessary, reasonable or convenient.

6.2.7: Price on Offer. In the event a Venturer desires to sell his Unit(s) as permitted in this Section 6.2, the purchase price shall be calculated by dividing the number of Units to be sold by the total number of Units, and then multiplying this quotient by the value of the Joint Venture, which shall be determined from the most recent annual valuation prepared for the Joint Venture by the Managing Venturer; provided however, that if any such valuation was prepared more than twelve (12) months prior to the date of such offer, the selling Venturer may request a new valuation by an independent petroleum engineering firm, to be selected by the Managing Venturer. In any such valuation:

(a) Producing properties shall be appraised on the basis of their estimated future net income, discounted at an annual rate equal to the rate then charged by major banks in Austin, Texas, for short-term borrowing and shall be further discounted to take into account the risks associated with developing and producing such properties;

(b) The present worth of proven reserves shall be discounted by 33-1/3%; and

(c) The other assets of the Joint Venture shall be appraised in accordance with practices customarily followed in the petroleum industry. All costs of valuation requested by a selling Venturer shall be borne solely by him. The purchase price of the Units of the selling Venturer shall be payable twenty-five percent (25%) in cash within sixty (60) days after the Notice provided in Section 6.2.1 hereof and the balance represented by the purchasing Venturer(s) promissory note(s) bearing interest at the minimum rate provided for federal income tax purposes and payable on or before one year from the date of the cash payment.

6.3: Notice of Assignment. Notwithstanding anything in the Joint Venture or partnership laws of the State of Texas to the contrary, no transfer of any Unit(s), although otherwise valid under this

Agreement and the Act, shall be recognized by the Joint Venture until the transferor has given written notice thereof as provided herein and the transferee has become a Holder of Record.

6.4: Bankruptcy, Death, Incapacity or Forfeiture.

6.4.1: Continuation Agreement; Waiver of Liquidation Rights. Upon the bankruptcy, insolvency, death, or legal incapacity of a Venturer or the abandonment of Units by a Venturer (or, in the case of a Venturer that is a partnership, Joint Venture, association, corporation or trust, its insolvency, dissolution or bankruptcy), or upon the occurrence of any other event that would otherwise give rise to the dissolution of the Joint Venture, the Joint Venture shall be dissolved but not liquidated. Instead, in consideration of their mutual covenants, all of the Venturers specifically agree that in the event of the death, bankruptcy, insolvency, incapacity, or dissolution of any Venturer, or upon the occurrence of any other event that would otherwise give rise to the dissolution and liquidation of the Joint Venture, the Venturers, by executing this Agreement, hereby Vote in advance that the Joint Venture shall be reconstituted; provided, however, that the Venturers by unanimous Vote may rescind such Vote for reconstitution within thirty (30) days after the event causing the dissolution. Upon reconstitution, the business affairs of the Joint Venture shall continue and not liquidated, and each Venturer hereby specifically waives his liquidation rights in such an event. Liquidation of the Joint Venture shall be caused or obtained only in the manner set forth in Section 9.1 hereof. The newly constituted Joint Venture shall assume all liabilities of the dissolved Joint Venture.

6.4.2: Status of Successor In Interest. Except as otherwise provided in the Act, no assignee, transferee or successor in interest of a Venturer shall be deemed a Substitute Venturer or entitled to exercise any rights, powers, or benefits of a Venturer other than the right to distribution and allocation of Net Cash Flow, net Proceeds, Amount Realized and Federal Income Tax Items unless such assignee, transferee or successor in interest has been approved and accepted by the Venturers in accordance with this Article VI. Such successor in interest may transfer the Unit(s) of such Venturer only pursuant to the provisions of this Article VI.

6.5: Divorce. Upon the divorce of any Venturer, all of the interest in the Joint Venture of such divorced Venturer shall be determined in accordance with the Act.

6.6: Consent of Venturers. No assignee or transferee shall be deemed to be a Substitute Venturer or entitled to exercise or receive any rights, powers or benefits of a Venturer unless such assignee has been approved and accepted by the Venturers in accordance with Section 6.2.2(a), (b), (c), and (d).

6.7: Opinion Letter. Notwithstanding anything herein to the contrary, no Venturer may sell, transfer, assign, or give any interest in the Joint Venture without first presenting to the Managing Venturer a written opinion of counsel (in form and substance acceptable to the Managing Venturer) to the effect that such sale, transfer, assignment or conveyance will not result in a termination of the Joint Venture within the meaning of Code section 708(b).

6.8: Subdivided Units Prohibited. Notwithstanding anything herein to the contrary, no Venturer shall be permitted to further subdivide any portion of a Unit for the purpose of a sale, transfer, assignment, conveyance, gift, donation or bequest.

6.9: No Right of Presentment, Redemption or Withdrawal. Except as otherwise provided herein to the contrary, no Venturer shall have the right of presentment, redemption or withdrawal. As a result, if a Venturer attempts to withdraw it shall abandon all of its interest and rights in the Joint Venture.

ARTICLE VII

ACCOUNTING, RECORDS AND REPORTS

7.1: Books, Records and Reports. The Joint Venture shall maintain its principal office of the Joint Venture or at such other place as it may determine:

(a) The books and records of the Joint Venture; and

(b) An executed counterpart of this Agreement and all amendments thereto.

Such information, as is available pursuant to applicable Texas law, shall be open to reasonable inspection and examination by any of the Venturers, assignees, their agents, accountants, attorneys and other duly authorized representatives during regular business hours upon not less than 48 hours prior written request.

7.2: Accounting Method. The books and records of the Joint Venture shall be kept in accordance with the terms of this Agreement and generally accepted accounting principles as may be applicable hereto, applied in a consistent manner and shall be kept on an accrual basis. The accounting year of the Joint Venture shall be the calendar year.

7.3: Financial Statements and Tax Returns. At the expense of the Joint Venture, the Managing Venturer shall engage a certified public accountant to prepare the Joint Venturers' annual income tax return, the return required by Code section 6050K relating to sales and exchanges of interests in

the Joint Venture, and annual financial statements, which shall include:

(a) A balance sheet as of the last day of the accounting year;

(b) A statement of income or loss for the full year;

(c) A statement of changes in financial position;

(d) A statement of cash flow and distributions for the full year;

(e) A detailed statement of distributions to changes in the Capital Accounts of all Venturers; and

(f) A detailed statement of assessments and borrowings, if any. Subject to a Vote to the contrary, such financial statements shall be unaudited. Within a reasonable time after the close of each accounting year, the Managing Venturer shall transmit to each person who was a Venturer (or assignee) during such accounting year, a copy of such financial statements and a report (which may be in the form of Schedule K-1 to IRS Form 1065) indicating such persons' respective share of Federal Income Tax Items. Amount Realized, tax preference items and investment credits, if any, for such year.

7.4: Reports. In addition to the financial information set forth in this Article VII, the Managing Venturer shall furnish to the Venturers annually the following reports dealing with Joint Venture operations:

7.4.1: Prospect Status Reports. The Managing Venturer shall furnish reports in the form of drilling summaries indicating the status of each Joint Venture well and a description of the Prospect including the potential for future drilling activities on the Prospect and costs incurred on such Prospect to date.

7.4.2: Related Party Transactions. A detailed statement of any transactions by the Joint Venture with the Managing Venturer or its Affiliates, and of fees, commissions, compensation and other benefits paid or accrued to the Managing Venturer or its Affiliates for the period completed.

7.4.3: Well Status. A list of wells drilled by the Joint Venture (indicating whether such wells were completed or abandoned) and a statement of the cost of each well, If a well has been abandoned after production has commenced, an explanation of the abandonment will be included.

7.4.4: Farmouts. A description of all Farmouts by the Joint Venture during the preceding period including the reason(s) therefore, location, time to whom and a general description of the terms thereof.

7.5: Banks. All funds of the Joint Venture shall be deposited in a separate bank account or accounts in the name of the Joint Venture as may be determined from time to time by the Managing Venturer. Withdrawals from such account or accounts shall be made upon checks or other withdrawal orders executed by a duly authorized representative of the Managing Venturer.

ARTICLE VIII

ALLOCATIONS

8.1: Allocation of Basis of Depletable Properties.

8.1.1: Initial Operations. For purposes of depletion, the Joint Venture shall allocate to the Managing Venturer and to each Venturer on or before the date of acquisition of each oil and gas property acquired with respect to Initial Operations, a portion of the adjusted basis of such property. Such basis shall be allocated one percent (1%) to the Managing Venturer and ninety-nine percent (99%) to the Venturers (and to each Venturer in the proportion that such Venturer's Units bears to the total Units of all Venturers).

8.1.2: Additional Property Acquired For Subsequent Operation. For purposes of depletion, the Joint Venture shall allocate to the Managing Venturer and to each Participating Venturer in a Subsequent Operation on or before the date of acquisition of any oil and gas property acquired for purposes of undertaking a Subsequent Operation, a portion of the adjusted basis of such property. Such basis shall be allocated one percent (1%) to the Managing Venturer and ninety-nine (99%) to the Participating Venturers in such Subsequent Operation (and to each such Participating Venturer in the proportion that the interest of such Participating Venturer in such Subsequent Operation bears to the total interests of all such Participating Venturers in such Subsequent Operation).

8.1.3: Allocations to Additional Venturers. On the admission pursuant to Subsection 2.10.6(c) of additional Venturers to participate in a Subsequent Operation to be undertaken on a property the basis of which has previously been allocated pursuant to Subsections 8.1.1 or 8.1.2, the Joint Venture shall reallocate to the Venturers participating in such Subsequent Operation, in the proportion specified in Subsection 8.3.2, the adjusted basis of the portion of the property upon which the Subsequent Operation is to be undertaken.

8.1.4: Records and Adjustments. Each Venturer is solely responsible for and shall separately keep records of his share of the adjusted basis in each oil and gas property of the Joint Venture, adjust such share of the adjusted basis for any depletion taken on such property, and use such adjusted basis each year in computing his cost depletion (if applicable) or his gain or loss on the disposition of such property by the Joint Venture. A Substitute Venturer shall succeed to the basis allocated to the transferor of his Unit(s).

8.2: Allocations with Respect to Oil and Gas Properties for Capital Accounts.

8.2.1: Simulated Depletion. For purposes of maintaining Capital Accounts only, the Joint Venture shall compute a "simulated" depletion allowance. The Joint Venture shall calculate this

"simulated" depletion allowance on each property using the method, cost or percentage, that produces the greatest allowance and without regard to limitations to which any individual Venturer may be subject. The Joint Venture shall make its choice between the simulated cost depletion method and the simulated percentage depletion method on a property-by-property basis.

8.2.2: Simulated Adjusted Basis. The Joint Venture shall compute a simulated adjusted basis in each oil or gas property in the same manner as it determines adjusted tax basis in such properties, except that it shall take into account simulated depletion allowances instead of actual depletion allowances.

8.2.3: Simulated Gain. On the Taxable disposition of an oil and gas property by the Joint Venture, the Joint Venture shall compute a simulated gain or loss by subtracting its simulated adjusted basis in such property from the amount realized on the disposition of such property.

8.2.4: Capital Account Adjustments For Simulated Depletion. The Joint Venture shall make downward adjustments to the Capital Accounts of the Venturers for the simulated depletion allowance with respect to each oil and gas property of the Joint Venture, and allocate such adjustments among the Venturers in the same proportion as such Venturers (or their predecessors in interest) were allocated the adjusted tax basis of each such property pursuant to Section 8.1 hereof. The aggregate Capital Account adjustments for simulated percentage depletion allowances with respect to an oil or gas property of the Joint Venture shall not exceed the aggregate adjusted basis allocated to the Venturers with respect to such property pursuant to Section 8.1 hereof.

8.2.5: Capital Account Adjustments For Simulated Gain and Simulated Loss. The Joint Venture shall make upward adjustments to the Capital Accounts of the Venturers by the amount of any simulated gain in proportion to such Venturers' allocable shares of the portion of the total Amount Realized from the disposition of such property that exceeds the Joint Venture's simulated adjusted basis in such property as provided in Section 8.5(b) hereof. The Joint Venture shall make downward adjustments to the Capital Accounts of the Venturers by the amount of any simulated loss in proportion such Venturers' allocable shares of the total Amount Realized from the disposition of such property that represents recovery of the Joint Venture's simulated adjusted basis in the property in the manner provided in Section 8.5(a) hereof.

8.3: Allocations of Net Cash Flow, Net Proceeds and Federal Income Tax Items.

8.3.1: Initial Operations. All Net Cash Flow, Net Proceeds and Federal Income Tax Items as they relate to Initial Operations shall be shared by or charged:

(a) Ninety-nine percent (99%) to the Venturers prior to Initial Operations Payout, and eighty-nine percent (89%) after Payout; and

(b) One percent (1%) to the Managing Venturer prior to Initial Operations Payout, and eleven percent (11%) after Payout. Each Venturer (or other Holder of Record) shall share Net Cash Flow, Net Proceeds and Federal Income Tax Items attributable to Initial Operations and allocated to the Venturers in the proportion that such Venturer's Units bears to the total Units of all Venturers.

8.4: Recapture. All recapture of previously taken deductions or credits shall be allocated to the Venturers to whom such deductions or credits were allocated and in the same manner.

8.5: Amount Realized. Amount Realized shall be allocated among the Venturers as follows:

(a) To the extent such Amount Realized represents recovery of the simulated adjusted basis in the property, such Amount Realized shall be allocated among the Venturers in the proportion that under Section 8.1 hereof the Venturers were allocated adjusted basis in the property sold; and

(b) Any such Amount Realized remaining after the allocation in paragraph (a) above shall be allocated among the Venturers in the manner set forth in Section 8.3 hereof.

8.6: Allocations to Holder of Record. All Federal Income Tax Items, Amount Realized, Net Cash Flow and Net Proceeds allocable to Venturers under the terms of this Agreement shall be allocated to the Holders of Record on the basis of the number of days that such person or entity was a Partner during the accounting year of the Joint Venture in which such item accrued; provided that:

(a) Amount Realized, Gain From Capital Transactions and Loss From Capital Transactions recognized as a result of the sale or other disposition of property during the accounting year of such transfer shall be allocated to the Holder of Record on the date of such sale or other disposition; and

(b) To the extent such Amount Realized, Gain From Capital Transactions and Loss From Capital Transactions is recognized by the Joint Venture under the installment method of accounting, such items shall be allocated between the assigned and the assignor so that any gain recognized by the Joint Venture on a particular date is allocated to the Holder of Record on the date of the sale or other disposition giving rise to such gain.

8.7: Distributions. Subject to a Vote to the contrary, the Managing Venturer may at any time or in its sole and absolute discretion, distribute Net Cash Flow and Net Proceeds to the Venturers in the proportion to which they are entitled, as set forth in Section 8.3 hereof.

8.8: Distributions in Kind. In no event shall a Venturer have the right to demand property other than cash with respect to any return of invested capital. During the term of the Joint Venture the Managing Venturer shall make no distribution of property in any form other than in cash. On liquidation of the Joint Venture, the Managing Venturer may, in its sole and absolute discretion, distribute property other than cash to any or all of the Venturers.

8.9: Tax Elections. The Joint Venture shall exercise its option to deduct Intangible Costs pursuant to Code section 263(c). In addition, the Managing Venturer, in its sole and absolute discretion (subject to a Vote to the contrary), may cause the Joint Venture to make or revoke the election referred to in Code section 754 or any similar provision enacted in lieu thereof, and make or revoke any other election or option that may be available to the Joint Venture under the Code.

8.10: Qualified Income Offset. Notwithstanding any other provision of this Article VIII, if a Venturer unexpectedly receives an allocation, adjustment or distribution described in Treasury Regulation section 1.704-1(b)(2)(ii)(d)(4), (5), or (6), that creates a deficit balance in its Capital Account, such Venturer shall be allocated items of Profit or Gain From Capital Transactions of the Joint Venture in an amount and manner sufficient to eliminate such deficit Capital Account balance as quickly as possible.

ARTICLE IX
HISTORICAL DATA

9.1: Prior Drilling Activities. Carson Energy, Inc. was organized on December 5, 1983. Since 1990, Carson Energy, Inc. as the Initial Managing Venturer has participated in drilling exploration programs through individual Joint Ventures which held or holds, a minority working interest ownership in the following oil and gas drilling and exploration programs. The following is a reflection of the prior 3D activities through September 30, 2010. All recoverable reserve estimates used in calculating the following have been provided by third party experts, geologists, petroleum engineers, and / or reserve analysts. Please bear in mind these estimates are forward looking and as such the actual long-term production may be significantly higher or lower than listed below. Please be advised that revenue history on past wells has no

bearing on the success of future drilling activities and should not be taken as an indication of the results that may be obtained from any other drilling activity. Each well or prospect must stand on its own merit.

9.1.2 The Sabine Lake #1 3D Joint Venture consists of twelve (12) units of Joint Venture participation in accordance with the Sabine Lake #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $1,221,874.32. The Sabine Lake #1 3D well was completed for commercial production in March of 2007 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. The well is currently producing down the sales line at a rate of approximately 8,130,000 cubic feet of natural gas and 328 barrels of condensate per day. Since the first revenue distribution by the operator on January 31, 2008, the Joint Venture has received and distributed $3,439,724.28 to the Carson Energy Joint Venture Participants. The post drill value of the estimated recoverable reserves to the Joint Venture, for this well, based on third party calculation, is $8,865,316.50. Rosetta Resources is the Operator as well as a working interest partner.

9.1.3 The Speckled Trout 3D Seismic Participation Group Joint Venture consists of twelve (12) units of Joint Venture participation in accordance with the Specked Trout 3D Seismic Participation Group Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic and leases was $576,535.20. The Specked Trout 3D Seismic Participation Group elected to construct a production facility and purchase a pipeline for the Speckled Trout area well production and as a result, generates revenue by way of transport fees as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Since the first revenue distribution by the operator the Joint Venture has received and distributed $770,112.48 to the Carson Energy Joint Venture Participants. The estimated value cannot be calculated at this time in that the value of the production facility and associated pipeline is dependent upon the consistency of the well production in the area. Rosetta Resources is the Operator as well as a working interest partner.

9.1.4 The Sabine Lake #2 3D Joint Venture consists of ten and one eighth (10.125) units of Joint Venture participation in accordance with the Sabine Lake #2 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $1,484,641.31. After a sidetrack drilling operation, the Sabine Lake #2 3D well was completed for commercial production in October of 2007 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Since the first revenue distribution by the operator on March 7, 2008, the Joint Venture has received and distributed $135,965.14 to the Carson Energy Joint Venture Participants. The post drill value of the estimated recoverable reserves to the Joint Venture, for this well, based on third party calculation, is $9,025,251.92. Rosetta Resources is the Operator as well as a working interest partner.

9.1.5 The Sabine Lake #3 3D Joint Venture consists of four and three eighths (4.375) units of Joint Venture participation in accordance with the Sabine Lake #3 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $315,351.84. The Sabine Lake #3 3D well was completed for commercial production in September of 2007 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Since the first revenue distribution the Joint Venture has received and distributed $7,465.20 to the Carson Energy Joint Venture Participants. By May of 2008, the natural gas production had significantly declined as the water production increased. In June of 2008 the working interest partners on the well, including the Carson Energy Joint Venture Participants, elected to abandon further water reduction efforts and plug and abandon the well.

9.1.6 The Speckled Trout 3D Seismic Lease Acquisition Group Joint Venture consists of fourteen (14) units of Joint Venture participation in accordance with the Speckled Trout 3D Seismic Lease Acquisition Group Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic and leases was $659,974.23. Since the first revenue distribution by the operator the Joint Venture has received and distributed $15,971.76 to the Joint Venture Participants. Davis Petroleum is the Operator as well as a working interest partner.

9.1.7 The Sabine Lake #4 3D Joint Venture consists of five and three quarter (5.75) units of Joint Venture participation in accordance with the Sabine Lake #4 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $524,175.40. The Sabine Lake #4 3D well was drilled and completed in the third quarter of 2007, however, after the well was flow tested, it was determined it would not be equipped with a production platform or pipeline due to uneconomic flow rates. Rosetta Resources was the Operator as well as a working interest partner.

9.1.8 The Sabine Lake #1A 3D Joint Venture consists of ten (10) units of Joint Venture participation in accordance with the Sabine Lake #1A 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $1,363,379.80. The Sabine Lake #1A 3D well was completed for commercial production in June of 2008 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. The well is currently producing down the sales line at a rate of approximately 6,409,000 cubic feet of natural gas and 261barrels of condensate per day. Since the first revenue distribution by the operator on October 30, 2008, the Joint Venture has received and distributed $767,025.70 to the Carson Energy Joint Venture Participants The post drill value of the estimated recoverable reserves to the Joint Venture, for this well, based on third party calculation, is $11,480,336.03. Rosetta Resources is the Operator as well as a working interest partner.

9.1.9 The Dorado #1A 3D Joint Venture consists of nine (9) units of Joint Venture participation in accordance with the Dorado #1A 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $1,041,124.32. The Dorado #1A 3D well was completed for commercial production in April of 2008 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. The well is currently producing 2,559,000 cubic feet of natural gas and 80 barrels of condensate per day. Since the first revenue distribution by the operator on August 4, 2008, the Joint Venture has received and distributed $269,691.75 to the Carson Energy Joint Venture Participants. The post drill value of the estimated recoverable reserves to the Joint Venture, for this well, based on third party calculation, is $3,352,339.65. Davis Petroleum Corporation is the Operator as well as a working interest partner.

9.1.10 The Sabine Lake #5 3D 2009 Joint Venture consists of seven and one quarter (7.25) units of Joint Venture participation in accordance with the Sabine Lake #5 3D 2009 Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing was $545,429.96. The Sabine Lake #4 3D well was drilled in the second quarter of 2009 but not equipped for commercial production Davis Petroleum was the Operator as well as a working interest partner.

9.1.11 The Lake Anahuac #1 3D Joint Venture consists of twenty one and one half (21.5) units of Joint Venture participation in accordance with the Lake Anahuac #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $2,666,024.94. The Lake Anahuac #1 3D well was completed for commercial production in May of 2006 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Since the first revenue distribution by the operator on March 20, 2009, the Joint Venture has received and distributed $347,153.19 to the Carson Energy Joint Venture Participants. The post drill value of the estimated recoverable reserves to the Joint Venture, for this well, based on third party calculation, is $2,732,539.96. Davis Petroleum Corporation is the Operator as well as a working interest partner.

9.1.12 The Wolters #1 3D Joint Venture consists of five (5) units of Joint Venture participation in accordance with the Wolters #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing was $488,834.80. The Wolters #1 3D well was completed for commercial production April 2009, as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Since the first revenue distribution by the

operator in October, 2009, the Joint Venture has received and distributed $4,914.75 to the Carson Energy Joint Venture Participants. The post drill value of the estimated recoverable reserves to the Joint Venture, for this well, based on third party calculation, is $4,511,592.43. Jamex Corporation is the Operator as well as a working interest partner.

9.1.13 The Sweet #1 Joint Venture consists of seven (7) units of Joint Venture participation in accordance with the Sweet #1 Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing was $538,482.84. The Sweet #1 well was completed for commercial production June 2009 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Since the first revenue distribution by the operator in September, 2009, the Joint Venture has received and distributed $17,514.67 to the Carson Energy Joint Venture Participants. Del Mar Exploration is the Operator as well as a working interest partner.

9.1.14 The Tres Equis #1 3D Joint Venture consists of five and a half (5.5) units of Joint Venture participation in accordance with the Tres Equis #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing was $555,362.50. In April of 2009 the working interest partners on the well, including the Carson Energy Joint Venture Participants, elected to abandon further water reduction efforts and plug and abandon the well. Davis Petroleum Corporation is the Operator as well as a working interest partner.

9.1.14 The Tarpon #1 3D Joint Venture consists of twenty (20) units of Joint Venture participation in accordance with the Tarpon #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing was $1,724,593.60. The Tarpon #1 3D well was not completed or equipped for commercial production as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Davis Petroleum Corporation is the Operator as well as a working interest partner.

9.1.15 The S.W. Redfish Reef #1 3D Joint Venture consists of three and one-half (3.5) units of Joint Venture participation in accordance with the S.W. Redfish Reef #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $510,380.01. The S.W. Redfish #1 3D well was completed for commercial production in December of 2006 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Since the first revenue distribution the Joint Venture has received and distributed $54,554.50 to the Carson Energy Joint Venture Participants. The post drill value of the estimated recoverable reserves to the Joint Venture, for this well, based on third party calculation, is $15,694,188.16. Tempest Energy Resources is the Operator as well as a working interest partner.

9.1.16 The Up Mack #1 3D Joint Venture consists of twenty (20) units of Joint Venture participation in accordance with the Up Mack #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $2,165,994.80. The Up Mack #1 3D well was completed for commercial production in July of 2009 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. After water intrusion into the productive zone the well was shut in and is currently being evaluated for further completion opportunities. Tempest Energy Resources is the Operator as well as a working interest partner.

9.1.17 The Pirate #1A 3D Joint Venture consists of nine (9) units of Joint Venture participation in accordance with the Pirate #1A 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing was $1,295,951.98. The Pirate #1A 3D well was not completed or equipped for commercial production as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Davis Petroleum Corporation is the Operator as well as a working interest partner.

9.1.18 The Sabine Lake #10 3D Joint Venture consists of twelve (12) units of Joint Venture participation in accordance with the Sabine Lake #10 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing was $1,460,169.30. The Sabine Lake #10 3D well was drilled in the first quarter of 2010 but not equipped for commercial production. Davis Petroleum was the Operator as well as a working interest partner.

9.1.19 The Rainer #1 3D Joint Venture consists of two and one-half (2.5) units of Joint Venture participation in accordance with the Rainer #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling, testing and completion was $85,980.00. The Rainer #1 3D well began commercial production in February of 2006 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Since the first revenue distribution by the operator on March 29, 2006, the Joint Venture has received and distributed $399,053.98 to the Carson Energy Joint Venture Participants. The value of the estimated recoverable reserves to the Joint Venture, for this well, based on third party calculation, is $567,516.30. Rodessa Operating Company is the Operator as well as a working interest partner.

9.1.20 The Grouper #1 3D Joint Venture consists of twelve (12) units of Joint Venture participation in accordance with the Grouper #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $1,790,360.60. After an initial completion and subsequent sidetrack, the Grouper #1 3D well was not completed for commercial production as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. SandRidge Energy Partners was the Operator as well as a working interest partner.

9.1.21 The Dorado #1 3D Joint Venture consists of nine (9) units of Joint Venture participation in accordance with the Dorado #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $1,078,940.70. The Dorado #1 3D well was placed online for commercial production in November 2005 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Since that date the Joint Venture has received and distributed $1,047,530.34 to the Carson Energy Joint Venture Participants. The value of the estimated recoverable reserves to the Joint Venture, for this well, based on third party calculation, is $10,565,294.20. Davis Petroleum Corporation is the Operator as well as a working interest partner.

9.1.22 The Dolphin #1 3D Joint Venture consists of nine (9) units of Joint Venture participation in accordance with the Dolphin #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $2,046,126.40. The Dolphin #1 3D well was completed for commercial production in December of 2006 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. The well is currently producing approximately 1,600,000 cubic feet of natural gas with 115 barrels of oil per day. The Joint Venture is awaiting the first revenue distribution from the operator. The post drill value of the estimated recoverable reserves to the Joint Venture, for this well, based on third party calculation, is $15,694,188.16. Davis Petroleum Corporation is the Operator as well as a working interest partner.

9.1.23 The Dorado #2 3D Joint Venture consists of nine (9) units of Joint Venture participation in accordance with the Dorado #2 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $938,078.28. Although hydrocarbons were located, the Dorado #2 3D needed a gas lift operation which was authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants, and there were no available wells in the vicinity. Davis Petroleum Corporation was the Operator as well as a working interest partner.

9.1.24 The Santa Ana #1 3D Joint Venture consists of eighteen and one quarter (18.25) units of Joint Venture participation in accordance with the Santa Ana #1 3D Application and Joint Venture

Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $1,528,546.10. The Santa Ana #1 3D well was completed for commercial production in March of 2006 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Since the first revenue distribution by the operator the Joint Venture has received and distributed $16,438.51 to the Carson Energy Joint Venture Participants. The value of the estimated recoverable reserves to the Joint Venture, for this well, based on third party calculation, is $9,072,877.35. The well is currently in production in Hidalgo County, Texas.

9.1.25 The Bonefish #1 3D Joint Venture consists of eleven (11) units of Joint Venture participation in accordance with the Bonefish #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $1,211,983.30. The Bonefish #1 3D was not equipped for commercial production as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Davis Petroleum Corporation was the Operator as well as a working interest partner.

9.1.26: The Price Lake #1 Joint Venture consists of twenty two (22) units of Joint Venture participation in accordance with the Price Lake #1 Application and Joint Venture Agreements. The total capitalization of the Joint Venture for seismic, leases and turnkey drilling, testing and completion was $1,454,820.84. The Price Lake #1 well began production in September 1999 as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Since that date the Joint Venture has received and distributed $2,195,187.50 to the Carson Energy Joint Venture Participants. The Price Lake #1 well was awaiting a sidetrack operation when Hurricane Rita made landfall approximately 1 mile from the well site. The well equipment was destroyed and the well site, roads and bridges were washed out. Rebuilding efforts were abandoned after several months due to excessive expenses and the withdrawal of the majority working interest partner. Erskine Energy, L.L.C was the Operator

9.1.27 The Corona #1 3D Joint Venture consists of eleven (11) units of Joint Venture participation in accordance with the Corona #1 3D Application and Joint Venture Agreements. The capitalization of the Joint Venture for seismic, leases and turnkey drilling and testing and completion was $1,638,531.40. The Corona #1 3D was not equipped for commercial production as authorized by a vote of the majority ownership in the well, including the Carson Energy Joint Venture Participants. Davis Petroleum Corporation was the Operator as well as a working interest partner.

9.2: Regulatory Matters:

9.2.1 In October 2004, Carson Energy, Inc, E. Carter Bills, II and another affiliated person of Carson Energy, Inc. consented to the entry of an order that vacated a previous order issued by the State of Washington Securities Division in May 2003. The Consent Order obligates them, should they sell securities in the State of Washington, to file a Form D with the Securities Division and to comply with the registration provisions of the Securities Act of Washington. The Consent Order notes that it is Carson's legal position that it does not sell securities, rather, sells Joint Venture interests. The Consent Order also notes that the named parties have asserted that they prepare offering materials that disclose all material risks of the Joint Venture interests they offer and sell.

9.2.2 In November 2002, the Pennsylvania Securities Commission rescinded a summary Cease and Desist Order against Carson Energy, Inc., Mr. Bills and a former affiliated person of Carson Energy, Inc. The Summary Cease and Desist Order had been entered in June, 2000 without a hearing and alleged, among other things, that Carson Energy, Inc. offered unregistered securities to a Pennsylvania resident. After the June, 2000 Order was issued, Carson Energy, Inc. filed to overturn the Summary Order, alleging that the joint venture interests which it offered to the Pennsylvania resident did not constitute securities under the Pennsylvania Securities Act. After making certain representations to the Pennsylvania Securities Commission and filing certain documents and undertakings with the Commission, the Summary Cease and Desist Order was totally rescinded without a hearing.

9.2.3: On August 10, 1992, the NASD filed a Complaint against FEC Securities and Mr. Bills. The Complaint alleged violations of the provisions of the NASD's Rules of Fair Practice. The NASD alleged, among other things: failure to keep certain records; failure to maintain net capital requirements; failure to promptly forward for deposit in an escrow account at least ten customer checks; deposited and withdrew funds on the same day from escrow while continuing to sell limited partnership units; and permitted individuals to be associated with FEC Securities and sold securities without being fully qualified and registered with the NASD. On June 2, 1994, an offer of settlement submitted by FEC Securities and Mr. Bills was accepted. The Order censured Respondents and fined them $5,000 jointly and severally. Respondent FEC SECURITIES was expelled from its NASD membership and Mr. Bills was suspended from association with any NASD member in any capacity for one year. The suspension commenced on August 15, 1994. The order further provided that Mr. Bills could requalify for membership in the NASD anytime after August 15, 1995.

9.2.4: In March 17, 1992, the Securities Commissioner of Missouri issued a permanent Cease and Desist Order against FEC Securities, FEDC and E. Carter Bills, II to cease and desist from anti-fraud violation and offering or selling unregistered securities in the State of Missouri without the benefit of registration.

9.2.5: On or about February 1992, the Securities Commissioner of Pennsylvania issued an Order by consent against Mr. Bills and FEC Securities in connection with the offer and sale of unregistered securities in the State of Pennsylvania in the form of interests in oil and gas drilling programs. Mr. Bills and FEC Securities neither admitted nor denied the allegations on the Order which barred Mr. Bills from offering or selling securities in Pennsylvania for three months. The Commissioner's Order rescinded a previous summary order issued *ex parte* on November 21, 1991. No fine was issued or paid in connection with the Order.

9.2.6: In January 1992, the Securities Commissioner of Kansas issued a Cease and Desist Order naming Mr. Bills, FEDC and FEC Securities and their representatives or agents to cease and desist from violations of the securities registration, broker-dealer registration and full disclosure provisions of the Kansas Securities Act. Respondents consented to the Order without admitting nor denying the Commission's allegations. No fine was issued or paid in connection with the action.

9.2.7: In May 1991, FEC Securities, FEDC and Mr. Bills were notified by the Texas Securities Board that a hearing would be held for the purpose of determining whether FEC Securities and FEDC were in compliance with certain provisions of the Texas Securities Act. FEC Securities, FEDC and Mr. Bills determined the cost in legal fees, time and energy, along with the potential adverse impact of protracted litigation necessitated the exploration of settlement. A settlement was entered into and the hearing was canceled. The State Securities Board entered an Order, which was consented by FEC Securities, FEDC and Mr. Bills without admitting or denying any of the State's allegations. The Order provided that FEC Securities and Mr. Bills would surrender their respective licenses as a securities dealer and salesperson in Texas. The Order further provided, however, that FEC Securities and Mr. Bills could reapply for such licenses after the expiration of three years on or after July 23, 1994, and that FEDC and Mr. Bills would not offer securities unless the securities were registered under the Texas Securities Act or an exemption from registration was available. The Order concerned only the registration requirements of the Texas Securities Act and contained no allegation of fraud, misrepresentation or similar conduct.

9.2.8: On December 14, 1987, or over 13 years ago, FEC Securities and Mr. Bills submitted a letter of Acceptance, Waiver and Consent ("AWC") to the National Association of Securities Dealers, Inc. ("NASD"), a securities broker-dealer self-regulatory organization, whereby they were jointly fined $7,500 for violations of the NASD's Rules of Fair Practice in connection with two offerings of limited partnership interests. Among other things, FEC Securities and Mr. Bills were alleged to have: accepted thirty-six customer checks made payable to the limited partnership or general partner of the business partnership itself rather than the escrow agent; accepted customer checks after the subscription period had expired and failed to refund investors' funds due to lack of completing the offerings prior to end of subscription period. All

investor funds in the offering were properly invested. FEC Securities and Mr. Bills consented to the sanctions without admitting or denying the allegations in the AWC.

9.2.9: From August 1986 through June, 1988, or over 12 years ago, the States of Minnesota and Alabama brought actions against Mr. Bills and certain of his affiliated companies and individuals. The Minnesota Commissioner of Commerce issued a summary Cease and Desist Order alleging that FEC Securities and Mr. Bills were offering and selling unregistered securities in the State of Minnesota without registration under the Minnesota Securities Act. The Alabama Securities Commission issued a consent Cease and Desist Order. The Alabama Order, however, did not disqualify any of the Respondents from registering securities with the Alabama Securities Commission or from offering or selling registered or exempt securities through registered securities dealers and salesmen. No fine was issued or paid in connection with either of the summary Orders.

9.2.10: On February 20, 1975, Republic Energy Corporation ("Republic"), an issuer which offered and sold fractional undivided working interests to the public, and Mr. Bills, at that time a low-level salesman for Republic, agreed to an order permanently enjoining them from various provisions of the federal securities laws. The Order of Permanent Injunction was entered by consent in the United States District Court for the Northern District of Texas, Dallas Division, upon a Complaint brought by the Securities and Exchange Commission. At the time of the Complaint, Mr. Bills had been employed for less than six weeks, and agreed to the Order without the benefit of personal legal counsel and without admitting or denying any of the allegations against him.

ARTICLE X

TERMINATION AND DISSOLUTION

10.1: Causes for Termination and Dissolution. The Joint Venture shall be dissolved and terminated on the date set forth in Section 1.6 hereof. Otherwise, the Joint Venture shall be dissolved and terminated prior to such date only upon the happening of the events as specified in the Act. Upon the bankruptcy, insolvency, death, or legal incapacity of a Venturer or the abandonment of Units by a Venturer (or, in the case of a Venturer that is a partnership, Joint Venture, association, corporation or trust, its insolvency, dissolution or bankruptcy), or upon the occurrence of any other event that would otherwise give rise to the dissolution of the Joint Venture, the Joint Venture shall be dissolved but not liquidated. Instead, in consideration of their mutual covenants, all of the Venturers agree and Vote in advance that in the event of the death, bankruptcy, insolvency, incapacity, or dissolution of any Venturer, or upon the occurrence of any other event that would otherwise give rise to the dissolution and liquidation of the Joint Venture, the Joint Venture shall be reconstituted and the business affairs shall continue and not be liquidated, and each Venturer hereby specifically waives his liquidation rights in such an event. However, the Venturers may rescind their Vote to reconstitute the Joint Venture by unanimous Vote within thirty (30) days after the event causing the dissolution. Liquidation of the Joint Venture shall be caused or obtained only in the manner set forth in this Article IX. The newly constituted Joint Venture shall assume all liabilities of the dissolved Joint Venture.

10.2: Liquidation. Upon dissolution and termination of the Joint Venture as set forth in Section 9.1 hereof, if the Joint Venture is not reconstituted, the Joint Venture shall engage in no further business other than such business as may be necessary to wind up its affairs and to distribute its assets.

10.3: Liquidator. The Managing Venturer shall serve as Liquidator, unless a substitute is appointed by a Vote of the Venturers.

10.4: Disposition of Assets. On the liquidation and dissolution of the Joint Venture, the Liquidator shall, by the later of the end of the taxable year in which the liquidation occurs or ninety (90) days after the liquidation:

10.4.1: Pay Debts. Pay all Joint Venture debts, or otherwise make adequate provision therefore;

10.4.2: Adjust Capital Accounts For Depletable Properties. Sell or determine the fair market value of the Joint Venture's depletable properties using appraisal techniques it deems to be appropriate, taking into account the nature of the property interests held by the Joint Venture. The Joint Venture depletable property (at appraised value) or Net Proceeds from the sale thereof shall be distributed to each Venturer in the manner set forth in Section 8.5 hereof. With respect to depletable property not sold, the Liquidator shall, prior to any distribution of such property, adjust the Capital Accounts of the Venturers to reflect:

(a) The manner in which simulated gain or loss would have been allocated among the Venturers under section 8.2.4 as though all depletable property had been sold for cash; and

(b) Any distributions under this Section.

10.4.3: Adjust Capital Accounts For Other Property. Sell or determine the fair market value of the remaining Joint Venture assets using such appraisal techniques it deems to be appropriate, taking into account the nature of property interests. With respect to any properties not sold, the Liquidator shall, prior to any distribution of such property by the Joint Venture, adjust the Capital Accounts of all Venturers to reflect the manner in which the unrealized Federal Income Tax Items inherent in such assets (that have not been reflected in the Capital Accounts previously) would be allocated among the Venturers, if there was taxable disposition of such assets for their fair market value on the date of distribution.

10.4.4: Final Statement of Account. As promptly as possible after dissolution, cause a final statement of account to be prepared, which shall show with respect to each Venturer, the status of such Venturer's Capital Account and the amount, if any, owing to the Joint Venture. Such statement of each Venturer's Capital Account shall reflect all the allocations provided in Article VIII hereof and the allocations to the Capital Accounts set forth in Sections 9.4.3 and 9.4.4 hereof.

10.4.5: Distribute Assets. The remaining Joint Venture assets (or cash realized from a sale thereof) shall be distributed to the Venturers at their fair market values as determined above, in the following order:

(a) Prior to Payout to the Venturers (including the Managing Venturer to the extent it holds Units) ninety-nine percent (99%) (and among the Venturers as provided in Section 8.3 hereof) and to the Managing Venturer one percent (1%) for its interest as Managing Venturer; and

(b) After Payout to such Venturers, eighty-nine percent (89%) (and among the Venturers as provided in Section 8.3 hereof) and to the Managing Venturer eleven percent (11%).

10.4.6: Withholding to Pay Debts of Venturers. Notwithstanding the foregoing, if any Venturer is indebted to the Joint Venture, then until repayment thereof by him, the Liquidator shall retain such Venturer's distributive share of Joint Venture properties and apply such properties and the income there from to the full discharge and payment of such indebtedness and the cost of the operation of such properties during the period of such Liquidation; provided, however, if at the expiration of six (6) months after the Final Statement of Account has been give to such Venturer, such amount has not been paid or otherwise settled in full, the Liquidator may sell the interest of such Venturer at a public or private sale at the best price immediately obtainable, which shall be determined in the sole and absolute judgment of the Liquidator. So much of the proceeds of such sale as shall be necessary shall be applied to the payment of the amount then due under this section, and balance of such proceeds, if any, shall be delivered to such Venturer.

10.4.7: Other Requirements of Law. The Liquidator shall comply with any requirements of the Act or other applicable law pertaining to the winding up of a partnership at which time the Joint Venture shall stand terminated.

10.5: No Recourse. Upon Liquidation or dissolution of the Joint Venture, each Venturer shall look solely to the assets of the Joint Venture for the return of such Venturer's investment. If the Joint Venture assets remaining after payment and discharge of debts and liabilities of the Joint Venture, including any debts and liabilities owed to any one or more of the Venturers, is not sufficient to satisfy the rights of each Venturer, such Venturer shall have no recourse or further right or claim against the Managing Venturer, any Affiliate, any officer, any director, employee, attorney or agent of the Managing Venturer or of any Affiliate, or the remaining Venturers.

10.6: Reserves. In winding up the affairs of the Joint Venture and distributing its assets, the Liquidator shall set up a reserve to meet any contingent or unforeseen liabilities or obligations, and shall deposit funds for such purpose, together with funds held by the Joint Venture for distribution to Venturers which remain unclaimed after a reasonable period of time, with an escrow agent retained for the purpose of disbursing such reserves and funds. At the expiration of such period as the Liquidator deems advisable, the escrow agent shall be authorized and directed to distribute the balance thereafter remaining in the manner provided in Section 9.4 hereof.

10.7: Restoration of Negative Capital Accounts. No Venturer with a deficit in his Capital Account shall be obligated to restore the amount of such deficit to the Joint Venture.

10.8: Organizational Costs. For purposes of determining the Capital Account of a Venturer on liquidation of the Joint Venture, the portion of the Turnkey Price (as defined in the Application Agreement) paid by the Joint Venture and allocable to Organizational Costs (as defined in the Application Agreement) charged to a Venturer and not previously deducted from that Venturer's Capital Account on liquidation of the Joint Venture, shall be deducted from that Venturer's Capital Account as an expense of that Venturer

ARTICLE XI

INDEMNIFICATION

11.1: Indemnification. The Joint Venture shall indemnify any person who is or was (i) a Managing Venturer of the Joint Venture, (ii) while a Venturer of the Joint Venture, serving at the request of the Joint Venture as a partner, Venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic partnership, Joint Venture, Sole Proprietorship, Trust, employee benefit plan or other enterprise, against reasonable expenses incurred by them in connection with the defense of any threatened, pending, or completed action, suite, or proceeding, whether civil, criminal, administrative, arbitrative, or investigative, any appeal in such an action, suit, or proceeding, and any inquiry or investigation that could lead to such an action, suite or proceeding, where the person who was, is, or is threatened to be made a named defendant or respondent in a proceeding was named because the person is or was the Managing Venturer or a Venturer, whichever is applicable, of the Joint Venture, including indemnification for such Venturer's own negligence.

11.2: Successful Defense. The Joint Venture shall indemnify each Venturer against reasonable expenses incurred by him in connection with a proceeding in which he is a party because he is a Venturer if he has been wholly successful, on the merits or otherwise, in the defense of the proceeding.

11.3: Exclusions. A Venturer may not be indemnified under this Article X for obligations resulting from a proceeding in which the person is found liable to the Joint Venture as a result of gross negligence or willful misconduct.

11.4: Expenses. "Expenses" as used herein means court costs, attorneys' fees, judgments, penalties (including excise and similar taxes), fines, settlements and other reasonable expenditures actually incurred by the person in connection with the proceeding; provided however, if the proceeding is brought by or in behalf of the Joint Venture, the indemnification is limited to reasonable expenses actually incurred by the person in connection with the proceeding. A determination of reasonableness of expenses shall be made by a Vote.

11.5: Advance Reimbursement. Reasonable expenses incurred by a Venturer under this Article X who was, is or is threatened to be named a defendant or respondent in a proceeding may be paid or reimbursed by the Joint Venture in advance of the final disposition of the proceeding after (i) the Joint Venture receives a written affirmation by the Venturer of his good faith belief that he has met the standard of conduct necessary for indemnification under this Article X and a written undertaking by or on behalf of the Venturer to repay the amount paid or reimbursed if it is ultimately determined that he has not met the requirements of this Article X.

11.6: Appearance as Witness or Otherwise. The Joint Venture shall pay or reimburse expenses incurred by a Venturer under this Article X in connection with his appearance as a witness or other participant in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative, or investigative, any appeal in such action, suit or proceeding, and any inquiry or investigation that could lead to such an action, suit or proceeding, at a time when such Venturer is not a named defendant or respondent in the proceeding.

ARTICLE XII

MISCELLANEOUS PROVISIONS

12.1: Notice. Any notice, payment, demand or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been duly given and received for all purposes on the date delivered personally to the party or to an officer of the party to whom the same is directed, or when deposited by registered or certified mail, postage and charges prepaid and addressed as follows:

121.1.1: Joint Venture or Managing Venturer. If to the Joint Venture or to the Managing Venturer, then to the address of the principal place of business of the Joint Venture set forth herein or as may be changed from time to time;

12.1.2: Venturers. If to a Venturer, then to the address of such Venturer as set forth in his Execution Page and Power of Attorney attached hereto as Exhibit "A" executed by such Venturer or other agreement or instrument in which such Venturer has agreed to be bound by the terms and conditions of this Agreement. Any party hereto may change his or its address to which notice shall thereafter be given by furnishing written notice to al the Venturers and the Joint Venture in the manner set forth in this Section.

12.2: Integration. This Agreement, together with the Questionnaire and the Application Agreement attached to the Application Agreement as Exhibits "A" and "C", respectively, constitute the entire understanding of the parties hereto with respect to the subject matter hereof. No amendment, modification, or alteration of the terms of this Agreement shall be binding unless the same shall be in writing, dated subsequent to the date hereof and duly adopted by the Venturers, as provided herein.

12.3: Severability. If any term or provision hereof is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity or enforceability of the remainder of this Agreement.

12.4: Applicable Law. This Agreement and the application or interpretation hereof shall exclusively be governed by and construed in accordance with the laws of the State of Texas. This Agreement shall be deemed to be performable in and venue shall be mandatory in Travis County, Texas.

12.5: Execution in Counterparts. This Agreement and any amendment hereto may be executed in any number of counterparts, either by the parties hereto or their duly authorized attorney-in-fact, with the same effect as if all parties had signed the same document, or by the execution of the Power of Attorney and Execution Page in the form attached hereto as Exhibit "A" and made a part hereof. All counterparts (including such executed Power of Attorney and Execution Pages) shall be construed as and shall constitute one and the same Agreement.

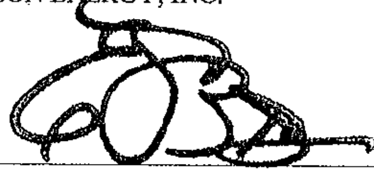
12.6: Descriptive Headings. The captions included herein are for administrative convenience only and shall not considered in interpreting any of the terms or provisions of this Agreement.

12.7: Gender and Number. Whenever the context shall so require, all words used herein in the male or neuter gender shall be deemed to include the female or neuter gender; all singular words shall include the plural, and all plural shall included the singular, as the context may require.

IN WITNESS WHEREOF, this Agreement has been executed by the Managing Venturer as of July 5, 2011 and by each Venturer on the date indicated opposite his signature hereto or the date of each such Partner's execution of an Execution Page and Power of Attorney hereto, each of which is hereby incorporated herein and made a part hereof.

MANAGING VENTURER:

CARSON ENERGY, INC.



By:____________________________
E. Carter Bills, II
President

EXECUTION PAGE AND POWER OF ATTORNEY

JOINT VENTURE AGREEMENT

OF CARSON ENERGY GROUP
CARDINAL #1 3D
(A TEXAS JOINT VENTURE)

By the execution hereof, the undersigned hereby constitutes and appoints Carson Energy, Inc., in its capacity as Managing Venturer of the captioned joint venture, and or any duly authorized officer thereof with full power of substitution in the premises, as his (her) true and lawful attorney-in-fact, for him and in his (her) name, place and stead and for his (her) use and benefit to attach this EXECUTION PAGE AND POWER OF ATTORNEY to the Agreement and to execute, acknowledge, swear to, certify, verify, deliver, record, file and publish as necessary:

(1) Any certificate, document or instrument as may be required, necessary or desirable under the laws of the state of Texas or the laws of any other state in which the captioned Joint Venture may be qualified, reformed or conducting business; and

(2) All instruments that reflect a change in the Joint Venture or change in, or amendment to this Agreement by Vote of the Venturers.

The Undersigned further authorizes such attorney-in-fact to take any further action that such attorney-in-fact considers necessary or advisable in connection with any of the foregoing, hereby giving such attorney-in-fact full power and authority to do and perform each and every act or thing whatsoever requisite or advisable to be done in and about the foregoing as fully and to the same extent as such Venturer might or could do if personally present, hereby ratifying and conforming all such attorney-in-fact shall lawfully do or cause to be done by virtue hereof; provided, that in no event may the Managing Venturer utilize this power of attorney to cast any vote or consent of the undersigned as to the matters with respect to which the Venturers are entitled to Vote.

The undersigned has and does hereby agree to execute any and all additional forms, documents or instruments as may be reasonably necessary or required by the Managing Venturer to evidence this power of attorney. This power of attorney shall be deemed coupled with an interest and shall survive the death or disability of the undersigned, or the assignment or transfer of the undersigned's interest in the Joint Venture, until the transferee(s) or assignee(s) shall become a Substitute Venturer as required by the Agreement, or shall have otherwise executed such instrument(s) as

The Managing Venturer reasonably deems to be necessary to bind such transferee(s) or assignee(s) under the terms of the Agreement, as from time to time amended, and the terms of this power of attorney.

The undersigned hereby agrees to be bound by any representations made by the Managing Venturer acting in good faith pursuant to such power of attorney; and hereby waives any and all defenses which may be available to contest, negate, or disaffirm the action of the Managing Venturer taken in good faith under such power of attorney.

IN WITNESS WHEREOF, the undersigned has executed this EXECUTION PAGE AND POWER OF ATTORNEY as of the ____ day of ________ 2011 at ____________________, ____________________.

VENTURER:

____
(Signature)

____
(Name Printed or Typed)

____
Business or Firm

Address:

____

____

Preferred Mailing Address
If other than Residence:

____

____

Social Security (Tax ID) #

____

EXHIBIT

D

Cardinal #1 3D
Potential Oil Reserves Only
Galveston County, Texas

ECONOMIC CONSIDERATIONS

Net Revenue Interest	73.50%
Working Interest	100%
Condensate Price	$93.00
Gas Price	$4.50
Unit Positions	18

PRODUCTION INFORMATION

Cardinal #1 3D Natural Gas Production (MCF)		0
Cardinal #1 3D oil Production (Barrels)	6.00000%	6,000,000

RETURN ON INVESTMENT

Cardinal #1 3D well Production		**Price**	**Tax / Prd. Exp.**	
0 MCF	**X**	**$4.50**	**X .925**	**$0.00**
Gas Revenue per unit		**X**	**0.2450%**	**$0.00**
6,000,000 Barrels	**X**	**$93.00**	**X .925**	**$516,150,000.00**
oil Revenue per unit		**X**	**0.2450%**	**$1,264,567.50**

Return from Cardinal #1 3D Well (per unit)		**$1,264,567.50**
Total Return per Participant unit >>		**$1,264,567.50**
Less contribution per unit		**($87,767.12)**
Anticipated Economic Benefit (Before Carson)		**$1,176,800.38**
Less Carson 10% Back In after payout per unit		**($117,680.04)**
Anticipated Carson program Back In (18 Units)	**$2,118,240.68**	**$1,059,120.34**
Anticipated Economic Benefit (Before Tax Savings)		**$1,059,120.34**
Anticipated Tax Savings *		**$97,108.29**
Anticipated Economic Benefit (With Tax Savings *)		**$1,156,228.63**

Net Revenue Interest is estimated above. Actual percentage may increase or decrease slightly dependent upon lease averages.

** (Calculated assuming a 35% tax bracket, 100% I.D.C. and 15% depletion allowance)

Cardinal #1 3D
Oil and Gas Potential Reserves
Galveston County, Texas

ECONOMIC CONSIDERATIONS

Net Revenue Interest	**73.50%**
Working Interest	**100%**
Condensate Price	**$93.00**
Gas Price	**$4.50**
Unit Positions	**18**

PRODUCTION INFORMATION

Cardinal #1 3D Natural Gas Production (MCF)		**12,430,000**
Cardinal #1 3D oil Production (Barrels)	**6.00000%**	**3,960,000**

RETURN ON INVESTMENT

Cardinal #1 3D well Production		**Price**	**Tax / Prd. Exp.**	
12,430,000 MCF	**X**	**$4.50**	**X .925**	**$51,739,875.00**
Gas Revenue per unit		**X**	**0.2450%**	**$126,762.69**
3,960,000 Barrels	**X**	**$93.00**	**X .925**	**$340,659,000.00**
oil Revenue per unit		**X**	**0.2450%**	**$834,614.55**

Return from Cardinal #1 3D Well (per unit)		**$961,377.24**
Total Return per Participant unit >>>		**$961,377.24**
Less contribution per unit		**($87,767.12)**
Anticipated Economic Benefit (Before Carson)		**$873,610.12**
Less Carson 10% Back In after payout per unit		**($87,361.01)**
Anticipated Carson program Back In (18 Units)	**$1,572,498.22**	**$786,249.11**
Anticipated Economic Benefit (Before Tax Savings)		**$786,249.11**
Anticipated Tax Savings *		**$81,190.80**
Anticipated Economic Benefit (With Tax Savings *)		**$867,439.91**

Net Revenue Interest is estimated above. Actual percentage may increase or decrease slightly dependent upon lease averages.

** (Calculated assuming a 35% tax bracket, 100% I.D.C. and 15% depletion allowance)

CARSON
ENERGY, INC.

NOTICE OF
RIGHT OF PARTICIPATION

"CARDINAL #1 3D JOINT VENTURE"

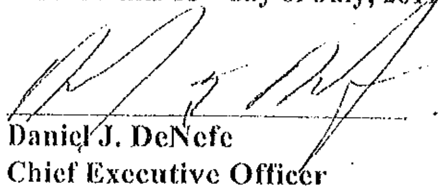
1. _____ I have reviewed the Carson Energy Group Cardinal #1 3D Joint Venture and would like to exercise my right of participation of 1.0000 Unit(s). Please reserve my position. I acknowledge reservation is contingent upon receipt of participation paperwork and funding by Carson Energy within three (3) business days.

2. _____ I relinquish my claim to right of participation regarding the Carson Energy Group Cardinal #1 3D Joint Venture. By not participating I relinquish all rights or interest in the Cardinal #1 3D Well and shall be considered a Non-Participating Venturer regarding the Cardinal #1 3D Well. I realize that this election does not affect my ownership in the Lucky #1 3D 2011 Joint Venture and associated well.

3. _____ Please contact me regarding additional participation in the Carson Energy Group Cardinal #1 3D Joint Venture should other participation units become available.

NOTE: RIGHT OF PARTICIPATION VALID FOR THREE (3) DAYS FROM DATE OF ISSUANCE ONLY.

ISSUED this 13th day of July, 2011



Daniel J. DeNefe
Chief Executive Officer

Venturer Signature

Date

Name of Venturer

EXHIBIT F

SUMMARY OF INVESTMENTS

Investor A Total Investments	$559,210.67
Investor B Total Investments	$123,410.71
Investor C Total Investments	$140,480.46
Investor D Total Investments	$100,246.90
Investors D and E Total Investments	$207,911.41
Investor F Total Investments	$14,263.50
Investor G Total Investments	$7,131.75
Investor H Total Investments	$90,500.50
Investor I Total Investments	$196,209.24
Investor J Total Investments	$247,708.14
Investor K Total Investments	$159,860.11
Investor L Total Investments	$105,305.54
Investor M Total Investments	$54,814.60
Investor N Total Investments	$100,246.90
Total Investments of all Investors	**$2,107,300.43**

INVESTOR A'S INVESTMENTS

Description	Investment
Cardinal #1 3D drilling and testing	$68,784.64
Riverbend/Hammock drilling & testing	$39,969.68
Riverbend/Hammock Sidetrack Additional Interest	$7,331.76
Riverbend/Hammock Completion	$12,481.78
Riverbend/Hammock Sidetrack 11/02/2012	$7,331.76
Riverbend/Hammock Cement Squeeze	$4,474.15
Riverbend/Hammock Wellbore Cleanout and Flow Test	$8,462.68
Riverbend/Hammock Acquisition and Completion	$41,634.38
2011 SWQ Initial Seismic and Acquisition	$162,420.00
2011 SWQ Seismic Participation Group 2013 Production Facilities Assessment	$7,956.82
2011 SWQ Seismic Participation Group August JIB Assessment	$3,086.55
2011 SWQ Seismic Participation Group Andromedae #2 Well	$6,640.32
2011 SWQ Seismic Participation Group Andromedae #2 Completion 4/2/2013	$2,804.62
2011 SWQ Seismic Participation Group Pyxix #2 D&T	$6,640.32
2011 SWQ Seismic Participation Group Hercules North D&T	$6,640.32
2011 SWQ Seismic Participation Group Additional Seismic 11/5/2012	$2,350.05
2011 SWQ Seismic Participation Group D&T Well #1	$6,324.10
2011 SWQ Seismic Participation Group D&T Well #2	$6,324.10
2011 SWQ Seismic Participation Group D&T Well #3	$6,324.10
2011 SWQ Seismic Participation Group D&T Well #4	$6,324.10
2011 SWQ Seismic Participation Group D&T Well #5	$6,324.10
2011 SWQ Seismic Participation Group Well #1 Production Facility Assessment	$6,451.98
2011 SWQ Seismic Participation Group Well #1 Completion	$2,964.60
2011 SWQ Seismic Participation Group Well #5 Completion	$2,964.60
Lukcy #1 3D drilling and testing	$72,802.16
Lukcy #1 3D completion	$17,576.22
Lucky #2 Well Pumping Unit Installation 8/26	$1,590.12
Lucky #2 Well drilling & testing	$21,782.44
Lucky #2 Well completion	$12,448.22
Total	**$559,210.67**

INVESTOR B'S INVESTMENTS

Description	Investment
West Cut Off #1	$17,196.16
West Cut Off Completion Assessment	$5,028.12
Cardinal #1 3D	$34,392.32
West Cut Off	$2,861.77
Lucky #1 3D	$36,401.08
Lucky #1 3D	$8,788.11
West Cut Off	$827.76
Lucky #2	$6,224.11
Lucky #2 Well drilling & testing	$10,896.22
Lucky #2 Well Pumping Unit Installation 8/26	$795.06
Total	**$123,410.71**

INVESTOR C'S INVESTMENTS

Description	Investment
White Castle #1 3D drilling and testing	$40,802.03
White Castle #1 3D Completion 1/30/2013	$9,321.42
Honey Pot #1 3D drilling and testing	$21,873.38
El Ray #1 drilling & testing	$24,947.00
El Ray #1 3D Completion	$13,171.50
Riverbend/Hammock drilling & testing	$10,650.41
Riverbend/Hammock Completion	$3,120.45
Riverbend/Hammock Sidetrack 11/02/2012	$1,832.94
Riverbend/Hammock Cement Squeeze	$2,237.07
Riverbend/Hammock Wellbore Cleanout and Flow Test	$2,115.67
Riverbend/Hammock Acquisition and Completion	$10,408.59
Total	**$140,480.46**

INVESTOR D'S INVESTMENTS

Description	Investment
White Castle #1 3D drilling and testing	$81,604.06
White Castle #1 3D Completion 1/30/2013	$18,642.84
Total	**$100,246.90**

INVESTORS D AND E'S JOINT INVESTMENTS

Description	Investment
Honey Pot #1 3D drilling and testing	$21,873.37
El Ray #1 drilling & testing	$24,947.00
El Ray #1 3D Completion	$13,171.50
Moonbeam #1 3D drilling & testing	$54,922.06
River Bend #1 3D completion	$16,642.36
River Bend #1 3D drilling & testing	$56,802.16
River Bend #1 3D sidetrack 11/02/2012	$9,776.48
River Bend #1 3D sidetrack additional interest	$9,776.48
Total	**$207,911.41**

INVESTOR F'S INVESTMENTS

Description	Investment
Lucky #1 3D Recompletion 9/25/14	$1,384.00
Lucky #1 3D Sidetrack	$7,258.50
Lucky #1 Sidetrack Completion 7/7/2014	$5,621.00
Total	**$14,263.50**

INVESTOR G'S INVESTMENTS

Description	Investment
Lucky #1 3D Recompletion 9/25/14	$692.00
Lucky #1 3D Sidetrack	$3,629.25
Lucky #1 Sidetrack Completion 7/7/2014	$2,810.50
Total	**$7,131.75**

INVESTOR H'S INVESTMENTS

Description	Investment
Lucky #1 3D Recompletion 9/25/14	$1,384.00
Lucky #1 3D Sidetrack	$7,258.50
Lucky #1 Sidetrack Completion 7/7/2014	$5,621.00
El Ray #1 drilling & testing	$49,894.00
El Ray #1 3D Completion	$26,343.00
Total	**$90,500.50**

INVESTOR I'S INVESTMENTS

Description	Investment
El Ray #1 drilling & testing	$12,473.00
El Ray #1 3D Completion	$6,585.75
Riverbend/Hammock drilling & testing	$21,300.81
Riverbend/Hammock Completion	$6,240.89
Riverbend/Hammock Sidetrack 11/02/2012	$3,665.88
Riverbend/Hammock Cement Squeeze	$2,237.07
Riverbend/Hammock Wellbore Cleanout and Flow Test	$4,231.34
Riverbend/Hammock Acquisition and Completion	$20,817.19
Blind Hog #1 3D 2nd Stage Completion 4/8/2014	$4,323.66
Blind Hog #1 3D drilling & testing	$36,411.03
Blind Hog #1 3D completion 12/17/13	$13,256.25
Blind Hog #1 3D Well Cleanout	$823.66
Hammock #1 3D 2012 Acquisition & Completion	$27,756.25
Hammock #1 3D 2012 Cement Squeeze	$2,983.07
Hammock #1 3D 2012 wellbore cleanout and flow test	$5,642.36
Moonbeam #1 3D drilling & testing	$27,461.03
Total	**$196,209.24**

INVESTOR J'S INVESTMENTS

Description	Investment
Riverbend/Hammock drilling & testing	$21,300.81
Riverbend/Hammock Sidetrack Additional Interest	$3,665.88
Riverbend/Hammock Completion	$6,240.89
Riverbend/Hammock Sidetrack 11/02/2012	$3,665.88
Riverbend/Hammock Cement Squeeze	$1,118.54
Riverbend/Hammock Wellbore Cleanout and Flow Test	$4,231.34
Riverbend/Hammock Acquisition and Completion	$20,817.19
Hammock #1 3D Completion Election 5/18/12	$25,754.50
Hammock #1 3D Cement Squeeze	$5,966.14
Hammock #1 3D Deepening Election 5/8/12	$2,255.66
Hammock #1 3D drilling & testing	$35,402.03
Hammock #1 3D well bore cleanout	$11,284.72
N. Eagle Bay Well drilling & testing	$45,422.00
N. Eagle Bay Well completion 9/15/14	$15,160.50
N. Eagle Nest #1 3d Well drilling & testing	$45,422.06
Total	**$247,708.14**

INVESTOR K'S INVESTMENTS

Description	Investment
Blind Hog #1 3D 2nd Stage Completion 4/8/2014	$4,323.66
Blind Hog #1 3D drilling & testing	$36,411.03
Blind Hog #1 3D completion 12/17/13	$13,256.25
Blind Hog #1 3D Well Cleanout	$823.66
Blue Bar #1 3D completion 1/30/13	$9,321.42
Blue Bar #1 3D drilling and testing	$40,802.03
Moonbeam #1 3D drilling & testing	$54,922.06
Total	**$159,860.11**

INVESTOR L'S INVESTMENTS

Description	**Investment**
Blind Hog #1 3D 2nd Stage Completion 4/8/2014	$4,323.66
Blind Hog #1 3D drilling & testing	$72,822.06
Blind Hog #1 3D completion 12/17/13	$26,512.50
Blind Hog #1 3D Well Cleanout	$1,647.32
Total	**$105,305.54**

INVESTOR M'S INVESTMENTS

Description	Investment
Blind Hog #1 3D 2nd Stage Completion 4/8/2014	$4,323.66
Blind Hog #1 3D drilling & testing	$36,411.03
Blind Hog #1 3D completion 12/17/13	$13,256.25
Blind Hog #1 3D Well Cleanout	$823.66
Total	**$54,814.60**

INVESTOR N'S INVESTMENTS

Description	Investment
Blue Bar #1 3D completion 1/30/13	$18,642.84
Blue Bar #1 3D drilling and testing	$81,604.06
Total	**$100,246.90**